WASTE, FRAUD, AND ABUSE IN FEDERAL SPENDING

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

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WASTE, FRAUD, AND ABUSE IN FEDERAL SPENDING

WEDNESDAY, JUNE 24, 1981

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The committee met at 10:10 a.m., in room 1114, Everett McKinley Dirksen Senate Office Building, Hon. Mark O. Hatfield (chairman) presiding.

Present: Senators Hatfield, Mattingly, Rudman, Proxmire, Sasser, and DeConcini.

COMMITTEE ON APPROPRIATIONS

ABUSES IN TRAVEL, TRAINING AND CONSULTING

HEARING PROCEDURE AND MEMBERS' STATEMENTS

Chairman HATFIELD. The hearing will come to order.

I would like to welcome members of the Committee on Appropriations and our witnesses to this hearing, the first in a series to explore waste in Federal spending. Our topics today will be Government travel, training, and the use of consultants. On July 9 and 10, we will explore the procurement of major systems and equipment by Government agencies.

Our ranking minority member, Senator Proxmire of Wisconsin, and I have arranged these hearings to aid the committee in the upcoming markups on fiscal year 1982 general appropriations bills. The subjects today and in July are ones which impact on the programs of nearly every one of our 13 subcommittees. It is our hope that the subcommittees can benefit from a Government-wide look at these topics, and that we will begin to see some reduction in these growing expenditures.

ELIMINATION OF WASTEFUL SPENDING IN FEDERAL GOVERNMENT

I can assure all our members that the elimination of wasteful spending is a major priority of mine, and I believe that the appropriations process is the ideal vehicle to pursue this aim. Of course, no Member in the Senate has been more determined nor more resourceful over the years in attacking wasteful spending as Senator Proxmire, and I want to publicly thank him for his initiative and cooperation in bringing about these hearings.

It is almost embarrassing these days to speak the phrase, waste, fraud, and abuse, for it has become a jaded cliche. Eliminating it is official Washington's No. 1 priority. While never the attention-getter it has become since the inauguration of President Reagan, wasteful spending has nevertheless been a target of concern in Congress for well over a century. In 2 years, we will note the 100th anniversary of the Civil Service Act, which sought to eliminate the wasteful practices inherent in the patronage system which Andrew Jackson developed to its zenith. That the creation of a permanent and professional civil service did not eliminate the problem completely has been well documented. The 97th Congress is still faced with wasteful Federal spending, as was the 47th Congress which enacted the Civil Service Act.

Estimates vary widely of how much waste there is in the Federal budget. The gloomiest figure I have heard of is $100 billion, which amounts to $1 in every $7 the Government spends. But, as has been stated in this Committee many times, there is no line item for waste, fraud, and abuse in the Federal budget. Eliminating it requires careful examination of Federal programs and procedures, without exceptions.

FOCUS ON THREE SPECIFIC AREAS OF FEDERAL SPENDING

Hence, I have called this hearing to focus on three specific areas of Federal spending which total in the range of $10 billion every year.

TRAVEL OF FEDERAL OFFICIALS

Travel of Federal officials has long been a sore spot. Congressional investigators and others have documented hundreds of examples of outrageous travel expenses piled up by Federal officials. GAO estimates Federal travel at $3.2 billion for fiscal year 1980. President Reagan clearly signaled his view that travel of executive officials is a problem area by slapping a 15-percent reduction on travel on his fifth day in office. Congress has also taken action to reduce Federal travel. Last year we enacted a $500,000,000 across-the-board reduction in travel, to be allocated by OMB. Unfortunately, the impact of this cut was reduced when Congress subsequently granted the President's request for a supplemental appropriation exceeding the amount of the reduction. This year the Committee on Governmental Affairs is recommending another reduction—of $550,000,000—as part of its reconciliation proposal. But I doubt anyone is entirely comfortable with across-the-board reductions. A great deal of travel is mandatory, and another large segment is highly beneficial to an agency's mission and cost effectiveness. The appropriations process provides the best opportunity to distinguish between warranted and wasteful travel.

CONTRACTING WITH OUTSIDE CONSULTANTS

An area even more fraught with problems is the Government's policy toward contracting with outside consultants. The problems here have been identified for a long time, but they remain with us. One problem is poor quality in contract assignments. A year ago today the Washington Post published a study on consultant contracts in which numerous

ridiculous examples of poor work were cited. In one example, an outside firm concluded for EPA that trucks in Manhattan travel at an average rate of 68 miles per hour. The Government paid over $360,000 to receive that absurd conclusion. A second study was judged, and I quote:

> Not understandable, illegible, grammatically incorrect, filled with irrelevant information, inadequate for methods determination or repetition, and devoid of required illustrations or graphics.

That particular study cost $95,000.

Up to two-thirds of consultant contracts are sole-source contracts, despite official policy restricting use of sole-source contracts to extraordinary situations. Such contracts eliminate any possibility of price competition. Worse, many of these contracts are unsolicited, and go to former agency employees, leaving the distinct impression that the contracts are designed to aid former officials, rather than the Government.

Unfortunately, one cannot conclude that because a study has been paid for, it will have any useful impact on agency operations, or is even read. The only impact of many of these studies, both good and bad, is to take up room in filing cabinets.

Senator Pryor has done as much work in this field as anyone in Congress, and has formulated a bill stressing disclosure as an initial step. We will want to discuss this and other possible remedies with our witnesses.

TRAINING OF GOVERNMENT EMPLOYEES

Finally, we will examine the subject of training of Government employees. This field has escaped the scrutiny that the higher profile travel and consultants have attracted. Yet, at a cost of over one-half billion dollars a year, when trainees salaries are included, we want to be assured that Government training is a lean and effective operation, at a time when all areas of Government, except defense, are facing close examination.

INTRODUCTION OF WITNESSES

Our witnesses today include Senator Pryor, the executive branch officials with responsibility to oversee consultant, travel, and training programs, and Mr. Clifford Gould, representing the General Accounting Office, which has studied and made recommendations regarding these problem areas for many years.

I will now, before calling on Mr. Gould and his associates, defer to the ranking member of this Appropriations Committee, a man who has been on the battlefront of this subject for many, many years, and is well-known throughout the Nation for his diligence in fighting waste, fraud, and abuse, Senator Proxmire.

HEARING SCHEDULE ON WASTE, FRAUD, AND ABUSE

Senator PROXMIRE. Thank you, Senator Hatfield, and thank you especially for those kind remarks. I want to congratulate you for scheduling these hearings—they are unprecedented. The Appropriations Committee did have a 1-day hearing on waste, as I recall, last year. The chairman has already scheduled three hearings and, as I understand it, there may be more in the fall. I further understand there is going to be a continuing inquiry by the Appropriations Committee with a followup to be sure that we at long, long last begin to do something truly effective about rooting out waste and fraud.

As the Chairman said so well, there is no line item in this budget request for fraud, waste, and abuse. You sometimes get the notion that there is. I know of a candidate for the Senate a few years ago who based his whole campaign on cutting $100 billion from this budget by eliminating fraud, waste, and abuse. I said, "Where?" And he said, "Wherever." And that is the trouble. We are all much too general about it, but through these hearings I think Chairman Hatfield is going to be able to find areas where there is waste, where there is fraud, and where there are low priority programs that should be eliminated.

Although I am delighted that the committee is zeroing in on waste in Federal travel, training, and consulting activities today, I am also distressed that after years of effort, and innumerable General Accounting Office reports, so little progress has been made.

FEDERAL TRAVEL BUDGET

The Federal Government's travel budget, after remaining relatively level between fiscal years 1970 and 1975, skyrocketed from $2.1 billion in 1975 to $3.2 billion by 1980. Even more depressing is the news contained in this Office of Management and Budget's January projections that travel costs will increase another 48 percent between 1980 and 1982 to a total of $4.7 billion. That seems to contradict everything we have heard.

TRAINING COSTS

Training costs have risen less precipitiously, having increased by 27 percent between 1976 and 1980, but they still represent a very substantial expense, costing a total of $686 million in 1980 including the cost of trainee salaries.

COST OF CONSULTANT SERVICES

It is almost impossible to isolate the cost of consultant services because the definition is so vague. However, I suspect that these costs are to be reckoned in the billions of dollars.

We are told that abuses exist in all of these areas. Travel is inadequately justified, in many cases the purpose of the trip is not even known, and first-class accomodations are used far too often. Training sometimes seems irrelevant to the needs of the trainee and immaterial to the goals of the agency, while too often there is no adequate evalua-

tion of training results. Consultants are frequently awarded contracts because of who they know rather than what they know while the contracts are let in all too many instances on a sole-source basis, as the chairman pointed out, and the results are, in many cases, never used.

EQUALITY IN BUDGET CUTTING

The reports of abuse and waste continue to pour in, but little seems to be done about it. Of course we can, and do, cut travel, training, and consultant budgets, but I for one have the uneasy feeling that those cuts fall on the deserving and undeserving alike. There is precious little evidence that a budget cut means the elimination of wasteful rather than essential expenditures.

I hope the witnesses we will hear today will help the Appropriations Committee to make the right kind of cuts in Federal spending, to control waste without penalizing truly worthy projects and programs. If we can move even part of the way toward that goal, the hearing will have been very useful indeed.

Thank you.

Chairman HATFIELD. Thank you, Senator Proxmire.

Are there any other opening comments?

REDUCTIONS IN FEDERAL TRAVEL BUDGET

Senator DECONCINI. Mr. Chairman, thank you. I will be very brief. I want to compliment the chairman of the Appropriations Committee, Senator Hatfield, for conducting these hearings. As we move into a genuine effort on both sides of the aisles to reduce the Federal expenditure in the budget and attempt to bring some fiscal sanity here, it has occurred to many of us, as it has the chairman and the ranking member of this committee and the full committee, the need to scrutinize Federal travel. I have witnessed it on the State level as a State employee and a county employee and I certainly witnessed it here. And I compliment you, Mr. Chairman.

Hopefully we can indeed bring about a substantial reduction in the excess travel. It is difficult to do because every one thinks that their particular trip is absolutely necessary and in some instances they are important. But when we are pulling back on some very good programs that I think have been beneficial, I think we have to ask and insist that the Federal employee use the telephone and other means of communication.

I thank the chairman.

Chairman HATFIELD. I thank the Senator from Arizona.

PREPARED STATEMENTS

We will reserve an area for opening statements by any other member of the committee.

[The statements follow:]

PREPARED STATEMENT OF HON. JIM SASSER, U.S. SENATOR FROM TENNESSEE

I want to commend Chairman Hatfield and the ranking minority member, Senator Proxmire, for calling these hearings.

I think it is important for the Congress to continue to review the efforts of the executive branch to reduce fraud, waste, and abuse in Federal programs. Expenditures for travel, consultants and training—the subject of this hearing—are particularly vulnerable to waste and abuse.

I must say that I applaud the rhetoric of the new administration. Early this year, the President and his representatives stated a clear commitment to reducing these costs. But those of us in the Congress who for many years have been urging substantial reductions in this area of spending are going to be looking, not at the words of the administration but at the actions of the administration.

Now all of us know that you can't balance the budget by merely cutting back on fraud, waste, and abuse. But we can make substantial reductions through efforts to reduce waste in certain activities such as travel, consultants and training.

Frankly, I have been a little concerned that the administration's most recent comments to reporters and before another committee have appeared to be aimed at lowering expectations in the fight against fraud, waste, and abuse in Federal programs. The President campaigned last year on the theme of drastically cutting back on what he said was $25 billion a year in Government fraud, waste, and abuse.

But now, I read comments in the press quoting Edwin Harper, the deputy director of the Office of Management and Budget as saying that the administration will be able to achieve a cut of only $1 billion in fraud, waste, and abuse in fiscal year 1982.

Frankly, I am very concerned by that statement. I'm not sure that we could cut out $25 billion but certainly we can do better than only $1 billion. Everyone who has ever run for public office has found that it is easier to run for office than to govern. I suppose the administration has found that fraud and waste and abuse is more difficult to find and cut out than had previously been expected.

I hope that these comments by OMB officials do not indicate the administration is in any way weakening its battle against fraud, waste, and abuse. These hearings will have been a success, Mr. Chairman, if administration witnesses will clarify these recent statements and tell us why they have lowered their expectations. I hope the administration witnesses will use these hearings to again underscore their commitment to making every possible reduction in fraud, waste, and abuse.

At a time when we are being asked to cut viable Government programs to the bone, I think we have a responsibility to the American people to assure them that the No. 1 priority is that Government operates efficiently and that their leaders are making every effort to cut out fraud, waste, and abuse first before making cuts that impact adversely on our people.

So, with that said, Mr. Chairman, I look forward to hearing the testimony today.

Chairman HATFIELD. I will ask if Senator Rudman has an opening statement.

Senator RUDMAN. I don't have any at this time, Mr. Chairman, thank you.

GENERAL ACCOUNTING OFFICE

FEDERAL PERSONNEL AND COMPENSATION DIVISION

STATEMENT OF CLIFFORD I. GOULD, DIRECTOR, FEDERAL PERSONNEL AND COMPENSATION DIVISION, GENERAL ACCOUNTING OFFICE

ACCOMPANIED BY:

AL STAPLETON, EVALUATOR-IN-CHARGE, FEDERAL PERSONNEL AND COMPENSATION DIVISION, GENERAL ACCOUNTING OFFICE

ROGER HULTGREN, EVALUATOR-IN-CHARGE, FEDERAL PERSONNEL AND COMPENSATION DIVISION, GENERAL ACCOUNTING OFFICE

INTRODUCTION OF WITNESSES

Chairman HATFIELD. We will now invite Mr. Clifford I. Gould to speak before the Committee on Appropriations, Mr. Gould is the Director of the Federal Personnel and Compensation Division for the General Accounting Office, which is one of the most important arms of the Congress.

Mr. Gould, we appreciate your presence here this morning and those of your associates, Mr. Stapleton and Mr. Hultgren. If you would introduce your colleagues and describe their particular roles, we would now ask for your testimony.

Mr. GOULD. Thank you. On my left is Al Stapleton who has been involved in the work we have been doing in the consulting areas; and on my right is Mr. Roger Hultgren, involved in the work we do in the travel area. I would like to summarize my statement, if you would put the full statement in the record.

Chairman HATFIELD. The full statement will be placed in the record.

PERSONNEL MANAGEMENT ACTIVITIES

Mr. GOULD. I appreciate your invitation to appear before your committee today to discuss the three areas of personnel management activities that you mentioned—use of consulting services, civilian employee training programs, and employee travel.

CONSULTING SERVICES

The General Accounting Office is concerned over the Government's use of consulting services which is evidenced by over 30 audit reports we have issued on the subject during the last 20 years. These reports identified the need for practically every major Federal agency to better manage consulting services.

Although we believe that the appropriate use of consulting services can be a legitimate and economical way to conduct Government operations, we see little evidence that agencies are acting administratively to correct abuses.

Although some improvements have been made, we believe congressional action is necessary to correct these problems and strengthen the controls over the use of consultants. Two recent GAO reports show that serious problems continue to exist in the Government's use of consultants, particularly in the Department of Defense.

PROBLEMS IN DOD USE OF SUPPORT SERVICES

On March 31, 1981, we issued a report showing that serious and pervasive problems existed in DOD's use of consulting services and other management support service contracts.

Our review disclosed extensive contract awards resulting from unsolicited proposals, significant involvement of former DOD officials and employees in contracts, continuous renewal of contracts that were in existence, questionable need for and use made of the contract services, overuse of sole-source awards, and extensive contract modifications.

On June 19, 1981, we issued an overview report on the use of consultants and other contract personnel to do work that Federal employees should do. This report discusses several previous GAO audits that found many agencies using contractors to do work involving basic management decisions. Although contractors may not be making final decisions, we are concerned about the extent to which contractors are influencing agencies' control of Federal programs and policies.

For example, DOD contractors are playing a significant role in identifying defense needs and, in effect, are articulating and performing DOD management functions. The result is that DOD is weakening its ability to perform in-house work essential to fulfill its mission. We found DOD was using contractors to fulfill its mission. We found DOD was using contractors to develop plans and organizational responsibilities in the event of mobilization, and reviewing the performance of other contractors, and preparing basic contracting documents, evaluating other contractors' proposals, and helping negotiate the final contract.

The report also points out that at the very same time Federal agencies are using contractor personnel for work that should be done in-house, they are using Government employees to provide commercial services that contractors could provide in many cases at a lower cost. We find it very ironic that DOD is using its own employees to provide commercial services while, in our opinion, relying excessively on contractors for defense management functions that should be done in-house.

CIVILIAN EMPLOYEE TRAINING

The second area of activity deals with civilian employee training. The Office of Personnel Management has informed us that, during fiscal year 1979, Federal agencies spent $624 million to provide about 33 million hours of training to 500,000 employees. These include such items as the salaries of trainers and trainees, tuition, fees, and books.

Training costs are on the rise. OPM estimates that during fiscal year 1980, $682 million were spent for training—a 1-year increase of $58 million.

Employee training programs are authorized under the Government Employees Training Act of 1958 and Executive Order 11348. Heads of departments and agencies are responsible for establishing and operating the training programs. Fulfilling these responsibilities requires a wide range of activities including: Determining training needs; developing training curricula; selecting employees to attend training; and evaluating training results.

In past years, both GAO and OPM have studied the management and operation of training programs. These studies identified program weaknesses in a number of areas, such as: Limited use of effective training needs assessments; inadequate systems for accumulating training costs; ineffective evaluations of training results; and lack of management support for training programs.

During the past few months, there has been an increase in congressional interest in the training area. In response to this increased interest, together with the need to insure that the Government is paying only for employee training that is necessary and job related, we are intensifying our efforts to examine Federal training programs. We have recently initiated two studies in response to specific congressional requests. One is an examination of external short-term training provided to employees by nongovernment sources. This training involves, for the most part, employees taking college courses and attending professional conferences. The second is a study of seminars sponsored by Government agencies for their employees.

We plan to begin work on two additional congressionally requested studies during the next few months. One will be an examination of long-term training programs where employees are sent to colleges and other educational institutions on a full-time basis for periods greater than 120 days. The other study will examine the off-campus training provided to Federal employees by colleges and universities.

These ongoing and planned assignments will examine the full range of activities needed to make training programs effective—from agencies' preparation of training needs assessments through their evaluation of training results.

TRAVEL BY FEDERAL EMPLOYEES

The third area that you mentioned is travel by Federal employees. Travel is essential to effective administration of any Government program. Yet, there is a general impression that the Government spends too much on travel, and it is widely perceived as an area of waste and inefficiency. Studies by GAO and others have highlighted opportunities to reduce costs and stressed the need to better manage travel.

Efforts during the past 5 years by the Congress and the President to reduce travel costs have not succeeded. OMB data shows that travel expenditures remained constant at $2.1 billion from fiscal year 1970 to 1975, but increased to $3.2 billion by fiscal year 1980. Last year, the Congress cut $500 million in travel and transportation funds from the fiscal year 1980 President's budget. However, executive branch agencies subsequently received supplements to their travel and transportation

budgets totaling $700 million for a net increase of $200 million over the President's original budget request.

Better data is needed if travel is to be more effectively managed. In three reports since 1977 we have recommended that budgeting and reporting systems be revised to focus more specifically on the purpose of travel, but this has not been done. If information on the purpose of a trip is lacking, Federal managers do not have a sound basis for approving the travel.

Another area of concern to us is the loose travel authorization procedure used by some agencies. In a review conducted last year, we focused on travel management in the Departments of Agriculture and the Army. These two organizations illustrate the range of travel authorization procedures.

In the Army, we found that travel orders were issued only to a few high-level officials and others who may have to travel on short notice. Agriculture, on the other hand, provides a general travel authorization for all employees of the Department. An employee in Agiculture needs only verbal approval from his or her supervisor to travel. In our December 1980 report, we recommended that the Secretary of Agriculture restrict the Department's general travel authorization to employees whose work requires frequent routine travel and require written authorization for all other travel. Agriculture has not changed its procedures.

OMB INSTRUCTIONS TO AGENCIES ON CONTROLLING TRAVEL COSTS

Over the last 5 years, OMB has issued a series of instructions to agencies on controlling travel expenses, including limiting the number of employees who are authorized to attend conferences. Yet, we found that during this period, Agriculture's Forest Service increased the number of conferences its employees may attend. In July 1977, the Forest Service's travel regulation authorized its officials to attend 50 national conferences. By January 1980, the list had increased to 77 national conferences, an increase of over 50 percent. In addition, the Service's travel regulation gave blanket authorization for large numbers of people to attend these conferences. For example, 111 people were authorized to attend the Forest Products Research Society conference and 59 were authorized to attend the National Audubon Society conference. Neither we nor Agriculture knows how many Forest Service employees actually attended those conferences because Agriculture's general travel authorization procedures do not require the purpose of trips to be documented.

To reduce costs, travelers should obtain economical air fares. The Federal travel regulations require travelers to use less-than-first-class accommodations, except in certain limited circumstances. Use of first class must be justified and approved in writing.

During our recent work for Senator Percy covering travel by noncareer Government officials, we found that agency records did not justify the use of first-class accommodations in over 75 percent of the trips in which first class was used.

We also found that officials used foreign carriers for over one-half of the overseas trips they took. U.S. law requires Government personnel to use U.S. carriers when they are available. Our office is continuing to review those trips. If we find that use of a foreign carrier was improper, we will ask the Department to collect the costs of the trip from the traveler.

PROCESSING TRAVEL REIMBURSEMENT CLAIMS

Finally, I would like to mention the need to reduce the high administrative costs of processing travel reimbursement claims. Although the total cost is unknown, we estimated the amount could be as much as $400 million in 1979—about 16 percent of the amount spent for travel. Our January 1981 report recommended that the General Services Administration and other departments and agencies act to cut these costs significantly: Revising the reimbursement method for high cost areas; eliminating redundant, overly detailed supervisory reviews; and by improving voucher audit activities at payment centers.

We share the committee's interest in reducing the cost of these activities where possible. However, we continue to be concerned about imposing unrealistic limitations on the use of programs funds for one particular purpose, such as travel. Program managers will comply with arbitrary limits because they have to; however, they are also responsible for meeting their program objectives and may thus use other methods that require less travel but are also less satisfactory.

For example, they may make greater use of routine reports to measure military unit readiness rather than send military teams to perform onsite readiness inspections; the former method may be less effective and efficient from the program standpoint. In the long run, this could cost more, and it might not give managers the same insights and firsthand experience that can make them better informed and more effective in carrying out their responsibilities. We would prefer to have OMB, other Government agencies, and the Congress focus on desirable program levels through the executive and legislative budget processes. We believe this is better than focusing on one program aspect, such as travel or consultant costs, completely out of the context of program objectives.

This concludes my statement, Mr. Chairman.

PREPARED STATEMENT

Chairman HATFIELD. Thank you, Mr. Gould. Your prepared statement will be inserted in the record at this point.

[The statement follows:]

PREPARED STATEMENT OF CLIFFORD I. GOULD, DIRECTOR

FEDERAL PERSONNEL AND COMPENSATION DIVISION

Mr. Chairman and Members of the Committee:

I appreciate your invitation to appear before the Committee today to discuss three areas of personnel management activities in the Federal Government. These are:

--Use of consulting services.

--Civilian employee training programs.

--Employee travel.

CONSULTING SERVICES

The General Accounting Office's (GAO's) concern over the Government's use of consulting services is evidenced by over 30 audit reports we have issued on the subject during the last 20 years. These reports identified the need for practically every major Federal agency to better manage consulting services. Although we believe that the appropriate use of consulting services can be a legitimate and economical way to conduct Government operations, we see little evidence that agencies are acting administratively to correct abuses.

Although some improvements have been made, we believe congressional action is necessary to correct these problems and strengthen the controls over the use of consultants. Two recent GAO reports show that serious problems continue to exist in the Government's use of consultants, particularly in the Department of Defense (DOD).

Controls over DOD's management support service contracts need strengthening

On March 31, 1981, we issued a report showing that serious and pervasive problems existed in DOD's use of consulting services and other management support service contracts 1/.

The report was based on a review of 256 randomly selected contract awards valued at about $175.4 million. The sample was

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1/"Controls Over DOD's Management Support Services Contracts Need Strengthening" (MASAD-81-19).

drawn from contracts for

--consulting services;

--management and professional services, special studies, and analyses; and

--management support services for research, development, test, and evaluation.

In fiscal year 1979, DOD spent about $2.6 billion for these types of contracts. The contracts ranged from relatively simple studies to aid in management decisions to contracts involving complex engineering support for major weapon systems.

Our review disclosed many problems including:

--Extensive contract awards resulting from unsolicited proposals (102 contracts reviewed valued at $25 million).

--Significant involvement of former DOD officials and employees in contracts (131 contracts reviewed valued at approximately $52.6 million).

--Continuous renewal of contracts (146 contracts reviewed valued at $149.2 million).

--Questionable need for and use made of the contract services (44 contracts reviewed valued at approximately $6.8 million).

--Overuse of sole-source awards (211 contracts reviewed valued at approximately $156.7 million).

--Extensive contract modifications (176 contracts reviewed with modifications valued at approximately $73.8 million).

We recommended that the Congress, as an interim measure, consider legislation which would minimize the funding of sole-source contracts for management support services and contracts resulting from unsolicited proposals. One way to accomplish this might be to establish quotas for a period of 2 to 4 years. We also made recommendations to the Director, Office of Management and Budget (OMB), and the Secretary of Defense, but we believe the problem is serious enough in DOD to warrant legislative action.

Civil servants and contract employees: who should do what for the Federal Government?

On June 19, 1981, we issued an overview report on the use of consultants and other contract personnel to do work that Federal

employees should do 1/. This report discussed several previous GAO audits that found many agencies using contractors to do work involving basic management decisions. Although contractors may not be making final decisions, we are concerned about the extent to which contractors are influencing agencies' control of Federal programs and policies.

For example, DOD contractors are playing a significant role in identifying defense needs and, in effect, are articulating and performing DOD management functions. The result is that DOD is weakening its ability to perform in-house work essential to fulfill its mission. We found DOD was using contractors to

--develop plans and organizational responsibilities in the event of mobilization;

--review the performance of other contractors; and

--prepare basic contracting documents, evaluate other contractors' proposals, and help negotiate the final contract.

We believe these functions are the responsibility of the Secretary of Defense and should not be delegated to anyone other than a Federal official. DOD program officials in each of the services told us that the expertise to perform these Government functions simply was not available, and many officials cited personnel ceilings as one of the reasons.

The report also pointed out an interesting dichotomy. At the same time that Federal agencies are using contractor personnel for work that should be done in-house, they are using Government employees to provide commercial services that contractors could provide in many cases at a lower cost. We find it very ironic that DOD is using its own employees to provide commercial services while, in our opinion, relying excessively on contractors for defense management functions that should be done in-house.

It has been the stated policy of the executive branch since 1955 to rely on contractors for commercial goods and services. However, agency compliance with this policy, currently contained in OMB Circular A-76, has been inconsistent and relatively ineffective. OMB information shows that as many as 400,000 Federal

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1/ "Civil Servants And Contract Employees: Who Should Do What For the Federal Government?" FPCD-81-43.

employees are currently operating more than 11,000 commercial and industrial activities at a cost of almost $19 billion annually. These employees represent almost one-fourth of the total executive branch civilian work force. Janitorial and keypunching services are examples of these types of activities. OMB estimates that savings of $3.6 billion could be achieved during fiscal years 1982 through 1987, if all agencies fully implement Circular A-76.

Circular A-76 requires agencies to inventory their commercial and industrial activities and establish schedules for comparing costs to determine the most economical source of performance--contract or in-house. About 60 percent of the cost comparisons conducted by DOD shows that it is more economical to convert the in-house activity to a contract.

If additional cost comparisons show that a large percentage of the commercial and industrial activities could be provided more economically by contract, DOD could reallocate many of its in-house positions to work that must be performed by Federal employees--Government functions--without increasing personnel ceilings.

We also reiterated a recommendation from a 1978 GAO report that the Congress should legislate a national policy of reliance on the private sector for commericial goods and services. Such legislation would preclude unilateral shifts in the policy by different administrations by establishing a stable national policy that could not be changed without congressional approval. Effective implementation should free up many existing commercial-type positions that can then be reallocated to Government functions and thus lessen contractors' involvement in basic management functions.

We also recommended that the Congress enact legislation requiring Federal agencies to fully disclose the use of consulting services in preparing congressionally-mandated agency reports.

Normally, GAO does not support legislative remedies for problems that should be resolved administratively. However, since executive branch agencies, with few exceptions, have not acted administratively, we believe congressional action is necessary in the areas we have discussed.

CIVILIAN EMPLOYEE TRAINING

The Government's programs for training its civilian employees are expensive. The Office of Personnel Management (OPM) has informed us that, during fiscal year 1979, Federal agencies spent $624 million to provide about 33 million hours of training to 500,000 employees. These costs include such items as the salaries of trainers and trainees, tuition, fees, and books.

Training costs are on the rise. OPM estimates that during fiscal year 1980, $682 million were spent for training--a 1-year increase of $58 million.

Employee training programs are authorized under the Government Employees Training Act of 1958 and Executive Order 11348. Heads of departments and agencies are responsible for establishing and operating the training programs. Fulfilling these responsibilites requires a wide range of activities including

--determining training needs;

--developing training curricula;

--selecting employees to attend training; and

--evaluating training results.

In past years, both GAO and OPM have studied the management and operation of training programs. These studies identified program weaknesses in a number of areas, such as

--limited use of effective training needs assessments;

--inadequate systems for accumulating training costs;

--ineffective evaluations of training results; and

--lack of management support for training programs.

During the past few months, there has been an increase in congressional interest in the training area. In response to this increased interest, together with the need to insure that the Government is paying only for employee training that is necessary and job related, we are intensifying our efforts to examine Federal training programs. We have recently initiated two studies in response to specific congressional requests. One is an examination of external short-term training provided to employees by non-Government sources. This training involves, for the most part, employees taking college courses and attending

professional conferences. The second is a study of seminars sponsored by Government agencies for their employees.

We plan to begin work on two additional congressionally-requested studies during the next few months. One will be an examination of long-term training programs where employees are sent to colleges and other educational institutions on a full-time basis for periods greater than 120 days. The other study will examine the off-campus training provided to Federal employees by colleges and universities.

These ongoing and planned assignments will examine the full range of activities needed to make training programs effective--from agencies' preparation of training needs assessments through their evaluation of training results.

TRAVEL BY FEDERAL EMPLOYEES

Travel is essential to effective administration of any Government program. Yet, there is a general impression that the Government spends too much on travel, and it is widely perceived as an area of waste and inefficiency. Studies by GAO and others have highlighted opportunities to reduce costs and stressed the need to better manage travel. We believe that Federal managers have focused too much attention on the accuracy of travel reimbursements after trips are made and not enough on reviewing before hand the need for the trips in the first place. Furthermore, top agency officials do not always require managers to comply with Federal travel policies which, in our opinion, demonstrates a lack of commitment to the goal of eliminating unnecessary travel.

Efforts during the past 5 years by the Congress and the President to reduce travel costs have not succeeded. OMB data shows that travel expenditures remained constant at $2.1 billion from fiscal year 1970 to 1975, but increased to $3.2 billion by fiscal year 1980. Last year, the Congress cut $500 million in travel and transportation funds from the fiscal year 1980 President's budget. However, executive branch agencies subsequently received supplements to their travel and transportation budgets totalling $700 million for a net increase of $200 million over the President's original budget request.

Better data is needed if travel is to be more effectively managed. In three reports since 1977 1/, we have recommended that budgeting and reporting systems be revised to focus more specifically on the purpose of travel, but this has not been done. If information on the purpose of a trip is lacking, Federal managers do not have a sound basis for approving the travel. A recent OMB study of 13,000 travel vouchers found that the purpose of the trips were not shown on 27 percent of the vouchers. We understand that OMB is currently considering adopting our recommendations, and we urge the Committee's support for this change.

Another area of concern to us is the loose travel authorization procedure used by some agencies. In a review conducted last year, we focused on travel management in the Departments of Agriculture and the Army. These two organizations illustrate the range of travel authorization procedures. In the Army, we found that travel was authorized by written orders and that blanket travel orders were issued only to a few high-level officials and others who may have to travel on short notice. Agriculture, on the other hand, has included in its travel regulations a general travel authorization for all employees of the Department. An employee in Agriculture needs only verbal approval from his/her supervisor to travel. In our December 1980 report, we recommended that the Secretary of Agriculture restrict the Department's general travel authorization to employees whose work requires frequent routine travel and require written authorization for all other travel. Agriculture has not changed its procedures.

Over the last 5 years, OMB has issued a series of instructions to agencies on controlling travel expenses including limiting the number of employees who are authorized to attend conferences. Yet, we found that during this period, Agriculture's Forest Service increased the number of conferences its employees

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1/"Proposals for Improving the Management of Federal Travel" (FPCD-81-13, Dec. 24, 1980), "Temporary Duty Travel in the Management and Operation of Department of Defense Programs" (FPCD-77-84, Oct. 28, 1977), and "Travel in the Management and Operations of Federal Programs" (FPCD-77-11, Mar. 17, 1977).

may attend. In July 1977, the Forest Service's travel regulation authorized its officials to attend 50 national conferences. By January 1980, the list had increased to 77 national conferences, an increase of over 50 percent. In addition, the Service's travel regulation gave blanket authorization for large numbers of people to attend these conferences. For example, 111 people were authorized to attend the Forest Products Research Society Conference and 59 were authorized to attend the National Audubon Society Conference. Neither we nor Agriculture knows how many Forest Service employees actually attended those conferences because Agriculture's general travel authorization procedures do not require the purpose of trips to be documented.

To reduce costs, travelers should obtain economical air fares. The Federal Travel Regulations require travelers to use less-than-first-class accommodations, except in certain limited circumstances. Use of first class must be justified and approved in writing.

During our recent work for Senator Percy covering travel by noncareer Government officials, we found that agency records did not justify the use of first-class accommodations in over 75 percent of the trips in which first class was used. We notified the heads of departments of these instances and asked them to collect any overpayments and to review their Department's controls to see that future uses of first-class accommodations are justified and properly documented.

We also found that officials used foreign carriers for over one-half of the overseas trips they took. U.S. law requires Government personnel to use U.S. carriers when they are available. Our Office is continuing to review those trips. If we find that use of a foreign carrier was improper, we will ask the Department to collect the costs of the trip from the traveler.

Finally, I would like to mention the need to reduce the high administrative costs of processing travel reimbursement claims. Although the total cost is unknown, we estimated the amount could be as much as $400 million in 1979--about 16 percent of the amount spent for travel. Our January 1981 re-

port 1/ recommended that the General Services Administration and other departments and agencies act to cut these costs significantly by:

--Revising the reimbursement method for high cost areas.

--Eliminating redundant, overly detailed supervisory reviews.

--Improving voucher audit activities at payment centers.

RESTRICTIVE COST LIMITATIONS

We share the Committee's interest in reducing the cost of these activities where possible. However, we continue to be concerned about imposing unrealistic limitations on the use of programs funds for one particular purpose, such as travel. Program managers will comply with arbitrary limits because they have to; however, they are also responsible for meeting their program objectives and may thus use other methods that require less travel but are also less satisfactory. For example, they may make greater use of routine reports to measure military unit readiness rather than send military teams to perform on-site readiness inspections; the former method may be less effective and efficient from the program standpoint. In the long run, this could cost more, and it might not give managers the same insights and firsthand experience that can make them better informed and more effective in carrying out their responsibiities. We would prefer to have OMB, other Government agencies, and the Congress focus on desirable program levels through the executive and legislative budget processes. We believe this is better than focusing on one program aspect, such as travel or consultant costs, completely out of the context of program objectives.

This concludes my prepared statement. I will be happy to respond to any questions the Committee may have.

1/ "Increased Productivity in Processing Travel Claims Can Cut Administrative Costs Significantly" (AFMD-81-18, Jan. 19, 1981).

COST OF OUTSIDE CONTRACTING

Chairman HATFIELD. Let me ask a couple of questions in each of these areas.

Do we honestly know what the cost of contracting for outside expert services really is in the executive branch? The Washington Post published a figure last year of $9.3 billion. Do you consider this to be an accurate figure or do you have any other figures to support this amount?

Mr. STAPLETON. Mr. Chairman, may I answer that question?

Chairman HATFIELD. Mr. Stapleton.

Mr. STAPLETON. The definition of consulting is a problem. It is vague and difficult to understand. OMB, I believe, recognizes some of that difficulty and they have tentatively agreed to expand the management controls over consulting services to other categories of contracts where the definition is somewhat hazy.

I cannot give you a precise figure on consultant expenditures.

Chairman HATFIELD. What about a ballpark figure?

Mr. STAPLETON. GAO's June 1980 report estimated approximately $2 billion for consulting service contracts in fiscal year 1979.

Chairman HATFIELD. Your ballpark figure would be an estimate of $2 billion?

Mr. STAPLETON. Yes.

Chairman HATFIELD. But you are saying, in effect, that the decisionmaking as well as the definitions are perhaps so hazy that it is impossible to nail down a precise figure?

Mr. STAPLETON. That is correct.

JUSTIFICATION FOR AGENCY CONSULTING CONTRACTS

Chairman HATFIELD. Let's start with the decision, first of all, within the agency. Are you convinced that they have a decisionmaking process and a criteria established so that they know the reason why and set forth the purposes for a consulting contract?

Mr. STAPLETON. No, Mr. Chairman. Our records indicate that many consulting contracts were not adequately justified. In a recent report, we found that 17 percent of the consulting and related service contracts that we reviewed were of questionable use to the agency and we did not feel the justifications were adequate.

SOLE-SOURCE CONTRACTS

Chairman HATFIELD. Let me ask you, then, also, do nearly all or what percentage of unsolicited contract proposals become sole-source contracts?

Mr. STAPLETON. A very high percentage of unsolicited proposals result in sole-source contracts. We are concerned that the exceptions in the regulations for sole-source procurements have been abused.

Chairman HATFIELD. Do you have any way to get a precise figure on such sole-source contracts and are some agencies more prone to that procedure than others?

Mr. STAPLETON. The Department of Defense was recently cited in a GAO report as particularly abusing this exception. The precise figures don't come to mind, but we will be happy to supply it for the record.

[The information follows:]

UNSOLICITED PROPOSALS

We have no data on the percentage of all unsolicited proposals the Government receives that result in sole-source contracts. However, a recent GAO report (MASAD-81-19) on 256 DOD consultant contracts showed that 102 were the result of unsolicited proposals. All 102 of these contracts were sole-source awards.

DUPLICATION AND OVERLAPPING OF RECORDKEEPING

Chairman HATFIELD. As a member of the Rules Committe, we have to approve the various contracts for such studies by committees of Congress, so forth. The thing that has always disturbed me was the lack of broadcast, what one committee was doing in acquiring through contract of consultant service. And as a result, we brought about a program whereby through the Library of Congress we had to crank in to a central recordkeeping facility all subjects and all such contracts that were issued for consulting services.

Do you think that there are ways to improve upon this method of eliminating duplication and overlapping?

Mr. STAPLETON. Mr. Chairman, there are at least four Government repositories of such studies that I know of operated by several different agencies each covering theoretically a different area of study.

We have been concerned that because of the number of repositories and the rush in some cases to award study contracts, agencies may not search the repositories adequately or when the study is completed to submit the completed study to the repository so that others can learn from it.

TRAVEL ABUSES

Chairman HATFIELD. Let me ask a few questions on the matter of travel.

Mr. Gould, we have been informed that some agencies are so lax in their recordkeeping on matters of travel that one survey indicated that as high as 25 percent of the trips that had been examined could not be accounted for in terms of purpose, objective, or goal.

Do you believe that such recordkeeping, as I have illustrated, is prevelant or are there steps being taken to tighten up such recordkeeping as it relates to travel?

Mr. GOULD. I believe the study that you are referring to is the OMB joint study on travel. They did come up with a figure of about 25 percent of the trips where there was no justification shown on the travel voucher. As a result, you could not determine the purpose of the travel or determine whether that trip was necessary.

They are recommending that the purpose of the travel be shown, which we have also recommended.

Based on past experience, I guess I would have to say I am not too optimistic.

Chairman HATFIELD. Would you make a general estimate? Let's assume that there is 25 percent unjustifiable or unaccountable travel—that is, unaccountable in terms of purpose and goals after the fact—what does that represent in dollars? Total travel *x* number of dollars, 25 percent of that on an estimate, what are we talking about?

Mr. GOULD. I think we would be guessing. We can possibly provide that for the record.

Mr. HULTGREN. Mr. Chairman, the Federal travel budget is somewhere around $3 billion.

Chairman HATFIELD. $3 billion?

Mr. HULTGREN. For this coming year. However, a good portion of that money would be for relocation travel which would have——

Chairman HATFIELD. I am talking about travel that is not considered as necessary or proper during a survey or review and that which you are not able to respond to when you say "Why was this trip taken?" What would you estimate the dollars involved in that category to be?

Mr. HULTGREN. I don't believe we have a very good ballpark estimate on that one.

Chairman HATFIELD. You found 25 percent of the number of agencies and you applied it, say, let's reduce it by half—let's say if it was 10 percent, then we are talking about 10 percent of $3 billion?

Mr. HULTGREN. Yes.

Chairman HATFIELD. That is a very conservative number, I would think.

Mr. HULTGREN. That is as good as any guess we could come up with.

Chairman HATFIELD. That is the equivalent of what we are taking out of some programs today in budgetary reductions, I supppose.

AGENCY COMPLIANCE WITH OMB TRAVEL DIRECTIVES

How persuasive do you estimate in the agencies there is disregard to OMB's travel directives, such as instructions to limit attendance to conferences and such? I have reason to believe, and have evidence, information given to me, that these guidelines are more noted in their breach than in their compliance.

Do you have any information on how closely the agencies are following OMB guidelines on travel?

Mr. GOULD. Mr. Chairman, I think if the agencies were following the guidelines that have been put out by OMB and others, you would not have these kinds of abuses. The guidelines are good. Obviously they prohibit some of these kinds of things we are talking about. It is simply a matter of managers not following them for whatever purpose and that is what we are really talking about, is trying to hold the managers accountable.

Chairman HATFIELD. How do you propose to get the agencies to follow them?

Mr. GOULD. If you are looking at the cost of the program that an agency is responsible for, if you talk to them about the travel needs for a particular program you could cut travel in any area where it is not necessary for the program based on any determinations you might

make. As you observed before, across-the-board cuts penalize everyone; the necessary as well as the unnecessary.

Chairman HATFIELD. But we have to have some criteria some way to target in. The easiest way is across the board.

Mr. GOULD. No question about it. And I can understand the frustration of Congress. After many years you may believe that across-the-board cuts are the only way you are able to do anything.

Chairman HATFIELD. By this afternoon you come up with a plan by which we can target in.

SUCCESS OF INTERAGENCY TRAINING PROGRAMS

One last question, Mr. Gould. I have information that OPM data indicates that in relation to training programs that interagency training programs is far more economical than either in-agency and/or the outside contract training programs.

Do you have any data to support that thesis?

Mr. GOULD. No, we do not have any data on that. It makes sense that with an interagency program you probably have more people attending a given kind of training at a specific time and the economies of scale would seem to imply that was more economical.

COMPARATIVE COST ESTIMATES ON TRAINING PROGRAMS

Chairman HATFIELD. Do you have any survey or analysis or plan to make a comparative cost estimate between such methods of training?

Mr. GOULD. Not specifically, but we certainly could include that in the on-going work.

Chairman HATFIELD. It seems to me it would be helpful to make that determination on some basis of analysis because I think that there could easily be a comparative cost analysis made between the different systems.

Mr. GOULD. I think it could be done.

Chairman HATFIELD. I have some other questions that I will reserve and either wait until the end or submit them to you for the record. I would like to defer to my colleague, Senator Proxmire.

USE OF FIRST-CLASS ACCOMMODATIONS

Senator PROXMIRE. Mr. Gould, you say in your statement, "We found that agency records did not justify the use of first-class accommodations in over 75 percent of the trips in which first class was used."

Now, on the other hand, GSA, which will appear a little later this morning says:

> From agency reports and the data we have compiled, we have determined that the additional cost associated with the use of first-class accommodations does not appear to be significant nor does there appear to be excessive or improper authorization for use.

How do you reconcile these two statements? How can GSA make a judgment on the validity of first-class travel if, as you say, the record does not justify the use of first-class accommodations in over 75 percent of the cases?

Mr. GOULD. Our response and illustration in the statement deals with the travel of high-level noncareer employees during the period after the election. That is a small percentage of total travel. In those that we looked at there was a high percentage of first-class travel; the justification for that first-class travel was not in the record.

PERCENTAGE OF FIRST-CLASS TRAVEL

When you look at travel in a broader sense, GSA is—and their percentages are based, I am sure, on that—first-class travel is a small percentage of the overall travel.

Senator PROXMIRE. What is that percentage? Can you tell us?

Mr. GOULD. We don't have that information. We can get it for you.

[The information follows:]

GSA REPORT ON AGENCY TRAVEL

Under Public Law 96-346 (approved September 10, 1980), the General Services Administration (GSA) must collect certain data from agencies that spend more than $5 million annually on transportation of people. GSA's latest report, dated June 2, 1981, covers travel by 25 agencies during fiscal year 1980. Data on all travel within those agencies and use of first-class acccmmodations are shown below:

Estimated annual voucher payments for all travel	$2,959,410,154
Additional cost for use of first-class air travel	241,743
All common carrier costs, including first-class air travel	1,061,573,186
Additional cost for use of first-class air travel as a percentage of all common carrier costs	0.023

ADDITIONAL COST OF FIRST-CLASS TRAVEL

Senator PROXMIRE. GSA indicated that "the additional cost associated with use of first-class accommodations does not appear to be significant nor does there appear to be excessive or improper authorizations for such use."

How can we tell whether that is the case or not?

Mr. GOULD. Significant in what terms? If you have $3 billion in travel, first-class as a percent is probably not very significant. If you are looking at the kind of travel we were looking at which involved high-level people, the incident of first-class travel is much higher at that level than it is at a junior level.

Senator PROXMIRE. But you say "* * * agency records did not justify the use of first-class accommodations in over 75 percent of the trips * * *" The records don't justify that travel. I admit that first-class travel may be a small percent of total travel—maybe 5, maybe 3 percent—but, at any rate, it is a lot of money in absolute terms. And you say that agency records do not justify first-class accommodations in over 75 percent of the cases then how can we conclude whether or not there is excessive or improper first-class travel?

JUSTIFICATION FOR FIRST-CLASS TRAVEL

Mr. GOULD. I guess our language should have said there was no justification in the record to show that the first-class travel was authorized. That first-class travel may well be justified; it is just not in the record.

Senator PROXMIRE. Are you telling us that we don't know whether it is justified or not?

Mr. GOULD. That is right. What we have done is asked each of the departments to go back and review the specific first-class travel and if they find they were not authorized and not justified, to collect the difference from the traveler.

Senator PROXMIRE. First-class travel may or may not be justified, but the Congress and the administration, specifically OMB, should insist on records which determine whether it is justified or not. Then we could make a judgment.

Mr. GOULD. That is our point.

TRAVEL REPORT ON DEPARTMENTS OF LABOR-HHS

Senator PROXMIRE. Your December 24, 1980 travel report cites a February 1980 report on travel in the Departments of Labor and Health and Human Services showing many instances of incorrect charges, with hundreds of thousands of dollars of travel expenses charged as purchase orders or recorded as other services in the budget. Further, GAO alleged that agencies' internal accounting systems were often grossly inaccurate, citing substantial savings when travel expenditures had actually risen.

Do you have any evidence to indicate that agency personnel are deliberately attempting to mislead the Congress by hiding travel costs in other budget categories?

Mr. GOULD. We have no evidence of that, sir. I don't know how you go about proving that. We don't know whether that is intentional or whether it is a weakness in the system itself.

Senator PROXMIRE. You have no evidence of it. Are you saying it is possible the Department is deliberately misleading us, but there is no way to prove it?

Mr. GOULD. It is possible, but we have no evidence, that is correct.

TAKING ANNUAL LEAVE IN CONJUNCTION WITH BUSINESS TRIPS

Senator PROXMIRE. I am concerned over the practice of taking 2 or 3 weeks of annual leave after a 1 or 2 day official business trip paid for by the taxpayer. Can you give us some idea of how prevalent the practice may be?

Mr. GOULD. You have asked us to take a look at that, but we don't have any figures at this time as to how prevalent that may be.

Senator PROXMIRE. I have a whole series of examples of that type of abuse. On July 8, 1980 an EPA employee flew from Cincinnati, Ohio to California on official business for a 2-day meeting, and after the meeting took 21 days of annual leave, returning to Cincinnati on August 18. I have a number of similar examples. And I have talked to many people in the executive branch who say, sure we do it, why not? If they want to take a trip to Hawaii or to Paris—we have examples of that—they will arrange for some kind of conference or meeting over there, travel at Government expense, attend the conference for a few hours or 1 day or 2, and then spend a couple of weeks vacationing. Most people

who take vactions, the overwhelming majority of the taxpayers, find that the biggest part of the cost is travel.

Mr. GOULD. I am sure that there are abuses of that. But, on the other hand, if you look at the purpose of the travel up front, and it is justified, that the trip is needed and you happen to be in a place that you have never been before and you want to take a couple of days leave, I am not sure that is abuse.

Senator PROXMIRE. I think that is right. What would be wrong in providing that you cannot take annual leave in connection with a trip of, say, over 100 miles?

Mr. GOULD. You are using across-the-board.

Senator Proxmire. That is true, and there would be a few people who might be inconvenienced on that basis, but you would eliminate an abuse which appears on the basis of what I see to be widespread.

Mr. GOULD. I think that if the person plans to take leave, the manager ought to look at the justifications for that trip to find out whether or not it is a vacation trip that is driving or whether it is the official business purpose of the trip that is driving.

MONITORING ASSOCIATION OF ANNUAL LEAVE WITH BUSINESS TRIPS

Senator PROXMIRE. Is there any way at the present time of monitoring the extent to which long periods of annual leave are taken in conjunction with official travel?

Mr. GOULD. I think that would take a extensive review of the travel records and leave records. I am not sure that kind of information is accumulated.

Senator PROXMIRE. The chairman of this committee and I have written to the GAO requesting that this area of possible abuse be investigated. As you know, the Senate passed legislation to prohibit the taking of annual leave in conjunction with official travel, but it was dropped in conference. But we are very earnest about it and I hope you can give us a report as soon as possible.

Granted that there is often substantial overlap of the various categories of consulting abuse such as sole-source awards, unsolicited proposals, fourth quarter awards, awards to exemployees, ignoring in-house possibilities, and extensive subcontracting of contracts awarded based on a supposedly unique ability to fulfill the demands of the work, which of these categories seem to contain the most abuses and in which does OMB need to make the greatest efforts at reform?

CONTRACT AWARDS IN DEPARTMENT OF DEFENSE

Mr. GOULD. The work that we did in the Department of Defense indicates that all of those things are significant. For example, extensive contract awards resulting from unsolicited proposals. We looked at 256 contracts, and there were 102 awarded on a sole-source basis from unsolicited proposals valued at $21 million. Involved with former DOD officials and employees: there were 21 of the 256 contracts in that category valued at $52.6 million. The questionable need for the use of contracts; 44 of the 256 that we reviewed amounting to $7 million didn't

appear to be of any use. Extensive contract modifications: 176 of 256 contracts we reviewed had modifications valued at about $74 million.

Senator PROXMIRE. It sounds like you made an attempt to quantify the possible levels of fraud in each of the categories.

Mr. GOULD. We tried to categorize and to put some values on the various categories of problems that we found in the Department of Defense. I am not sure that I can categorize all these as abuses without going further and finding out if they were valid justifications.

Senator PROXMIRE. Give us as much information as you can.

COST REDUCTION IN TRAINING COSTS

Now, in GAO's 1977 report entitled "The Government Employees Training Act of 1958: A Progress Report" it was stated that fiscal year 1976 training costs were $883 million. This morning you reported that, last year, training costs totaled $682 million, a reduction of about $200 million in 4 years. Can you explain to the committee what accounts for such a sizable cost reduction during a period of double-digit inflation? Is this a genuine reduction or does it result from a change in the way you classify training costs?

Mr. GOULD. It is a different presentation. The figures in 1977 included a provision of $302 million for overhead and that figure was the Civil Service——

Senator PROXMIRE. What was the figure?

Mr. GOULD. $302 million. So you would have to reduce the 1977 figure by that amount to get a comparison. They used 100 percent of training salaries for that overhead figure. If you were to apply that same overhead figure to the 1980 figure that I gave you, it would increase that estimate by about $359 million to a total of $1.04 billion.

Senator PROXMIRE. How big a percentage increase does that represent?

Mr. GOULD. About 25 percent.

Senator PROXMIRE. Mr. Chairman, I want to observe the time limit. I requested 10 minutes, so I will submit the balance of my questions.

Chairman HATFIELD. Senator Rudman.

Senator RUDMAN. Thank you, Mr. Chairman.

COMMERCIAL SERVICES PERFORMED BY AGENCY PERSONNEL

Mr. Gould, referring to page 5 of your statement, in the first full paragraph you say:

> The report also pointed out an interesting dichotomy. At the same time that Federal agencies are using contractor personnel for work that should be done in-house, they are using government employees to provide commercial services that contractors could provide in many cases at a lower cost. We find it very ironic that DOD is using its own employees to provide commercial services while, in our opinion, relying excessively on contractors for defense management functions that should be done in-house.

That is a conclusion based on opinion. It is very disturbing, but it is not disturbing standing by itself.

I would like to know whether or not you got to really what is the essence of this problem and if you can give us some information from your reports and research that would lead us to some sort of a solution.

Let me give you an example of what I am talking about. If, in fact, let's take the management functions first, DOD is having management functions performed by outside consultants, then you have to ask yourself: Why? Are they too lazy to do it themselves? That is probably not too likely. I don't know. The second question you have to ask yourself is: Have they tried to do it themselves? And then you have to find: Did they do it well or did they do it poorly?

I think the most important question you have to ask when you present that kind of conclusion to this committee, and you have to, really, at some point, furnish us for the record at some later date the base data that you have: Do they in fact have the kind of personnel in the civilian or military establishment of DOD to perform the kind of management functions that obviously they are now farming out to consultants?

The reason I am asking you this question is because it became apparant during Defense appropriations subcommittee hearings during this past winter and continuing into the spring, that a number of various sophisticated engineering type of management functions that are being performed in the Pentagon on major programs are being performed by outside contractors and consultants because the armed services cannot attract at the pay scale they are paying for either civilians or military, the kind of people that they must have to do these functions. So, it is not enough to tell us they are doing it. I want to know why they are doing it and can we improve something if they don't do it?

Do you have any background for that?

INADEQUATE PAY SCALES OF CIVILIAN EMPLOYEES

Mr. GOULD. The obvious conclusion that you can draw is the pay levels are inadequate for civilian employees in these high-performance areas that you are talking about—engineering, management. As you well know, the executive pay has been capped at $50,000 for several years. There has been one pay increase of 5 percent over the last 4 or 5 years. Obviously, that makes it difficult to attract the kind of talent you are talking about, not only there but elsewhere.

Senator RUDMAN. Then the record should not be critical of DOD; it ought to be critical of Congress.

Mr. GOULD. I don't think all of these people are in that category. A lot of the contractors that we are talking about doing functions for DOD are former DOD employees.

Senator RUDMAN. Who left because they could earn much more money elsewhere?

Mr. GOULD. Yes.

Senator RUDMAN. What I would like, Mr. Chairman, because this ties in very closely to what we are doing in defense appropriations, I would like to see three examples from your base data, submitted at your convenience sometime in the next several months, of specific management functions that were performed by outside consultants in specific areas and your conclusions as to why they were performed. I will then, on my own and with other members of this committee, interrogate the

people at the Pentagon to find out why they did so we can find out why.

The fact they do it is not enough. I think that is important and I would like copies because I would like to know why.

[The information follows:]

CONTRACTS AWARDED BY DOD

Three examples of contracts awarded by DOD which we believe should have been performed by DOD in-house personnel are:

An $82,138 sole-source contract was awarded for OSD to review Army support unit requirements for the first 30 days of a North Atlantic Treaty Organization war. We believe that DOD should have performed this task since it deals with critical defense requirements. The contractor received the sole-source contract because of time constraints and his extensive experience. The contractor's experience base, consisted of former DOD employees and military officers, including a retired Lt. General and Lt. Colonel. Furthermore, DOD officials told us that a month after the study was completed, in-house personnel were used to prepare another study similar in nature to the one contracted for. Defense Supply Service Contract No. MDA-903-79-C-0373.

The Army contracted for two engineers to train and monitor military personnel in collecting performance data on selected TSQ-73 Missile Minder systems in Europe. The contract, as modified, cost the Army $295,959, about $90,000 more than the estimated cost of using Army personnel. Program officials stated they had no choice but to contract this work. Army representatives said that they did not have and could not hire personnel needed for this effort because of personnel ceiling limitations. U.S. Army Missile Command Contract No. DAAH01-79-C-0210.

The Air Force awarded a sole-source contract for $1,065,000 to provide scientific and technical services to support threat validations of electronic warfare and command, control and communications simulations. Subsequently, the contract amount was increased $895,700, of which $560,700 was for the exercise of options and $335,000 for work modifications. This effort has been ongoing since 1976 and appears to be a continuous requirement. During the 1973-75 time period, the program office tried to obtain sufficient staff to perform this function in-house, but was unsuccessful. It should be noted that 10 of the contractor's employees performing the work are former DOD employees and/or members of the services—of which 2 were formerly assigned to the program office. Department of the Air Force Contract No. F 33657-79-C-0075.

COMPARATIVE ANALYSIS ON MARKET COSTS

Senator RUDMAN. Thank you, Mr. Chairman.

Chairman HATFIELD. I would like to follow up and ask you to give us a comparative analysis of what the market costs are for similar or correlated studies that are made for nondefense contractors. In other words, I know some of these people who have been in the Defense Department who are now providing sole-source contract, and what they are getting from the Defense Department, is a variation of what they are getting from other civilian nondefense sources for similar studies. I say similar studies, I am talking about systems analysis, personnel management, technical analysis and so forth.

I want to know what kind of market is being developed by the Pentagon and what kind of increase, decrease, or comparative cost there is per study.

I think you will find there is a special market as it relates to cost the Pentagon has that does not exist elsewhere and that is one of the reasons why they are leaving, because they develop their own market and their own customers.

[The information follows:]

COST COMPARISONS OF DOD/CIVILIAN CONSULTANTS

We do not have data to compare DOD and civilian agencies' consultant costs for similar studies. It would probably be difficult to compare costs since each study, although similar in purpose, may require unique skills that could affect costs. These differences may negate any comparative analysis.

Chairman HATFIELD. Senator Sasser.

Senator SASSER. Thank you, Mr. Chairman.

First, Mr. Chairman, I want to commend you and the ranking minority member, Senator Proxmire, for calling these very important and I think model hearings. I, unfortunately, was not here in time to make an opening statement and I would like to have permission now to have my opening statement appear in the record.

Chairman HATFIELD. It will be in the record. We reserved a place for you.

PROCESSING OF TRAVEL VOUCHERS

Senator SASSER. Mr. Gould, it is my understanding that in fiscal year 1978 it cost $449 million, almost half a billion, just to process the Federal Government's travel vouchers. Now, this is more than 15 percent of the total cost of Federal travel in the year 1979, which was $2,968,000,000 and that translates out to 15.6 million trips.

Now, that is a processing cost of almost $30 per trip just to issue the vouchers and to process. $30 per trip for trips that had an average cost of $190.

Now, I am advised that processing travel vouchers in the Federal Government can be as high as five times the cost of processing travel in the private sector—it costs the Federal Government five times more to process travel vouchers and the other records than it does private industry.

Would you care to comment on this and tell us if you have any recommendations, if the GAO has any recommendation for reducing what I think appears to be excessive processing costs for Federal travel?

Mr. GOULD. Yes, sir, Senator Sasser, we issued a report on January 19, 1981 entitled "Increased Productivity in Processing Travel Claims Can Cut Administrative Costs Significantly." We recommended that GSA and other departments and agencies cut their cost by revising their method in high cost areas.

As you may recall now, reimbursement for travel to high-cost areas requires detailed records of expenditures and in most cases the traveler's expenses are more than the per diem rate. We are suggesting a separate per diem basis for those high-cost areas and not require all the detail.

There are redundant overly detailed supervisory reviews, that we have suggested the agencies eliminate. We are also suggesting some improvements for voucher audit activities at the payment centers all aimed at the goal that you suggested, trying to reduce processing costs.

REDUCTION OF REDUNDANT REVIEWS

Senator SASSER. When did you recommend to reduce these redundant reviews?

Mr. GOULD. As a voucher it goes through the process half a dozen people may look at it. We don't believe all these reviews are necessary.

Senator SASSER. I agree with that. My question was: When was this recommendation made?

Mr. GOULD. The recommendation was made in our report in January of this year.

Senator SASSER. You can't give us any indication yet as to whether or not the agencies are following through with your recommendations?

Mr. GOULD. No, we have not had time to find out whether they are.

Senator SASSER. I look forward to perhaps later, the GAO following up on this to make sure, give us a report on whether or not these recommendations are being followed because I think it is just unconscionable that it should be costing the Federal Government as much as five times more to process their travel vouchers and other things that go with the travel—five times more than it does private industry. We have to be more efficient than that.

Mr. Chairman, those are all the questions I have.

Chairman HATFIELD. Thank you, Senator Sasser.

Senator Mattingly.

DEFENSE CONSULTING SERVICE

Senator MATTINGLY. Thank you, Mr. Chairman. I have one brief question I would like to ask you to follow on Senator Rudman's and Senator Hatfield's comments about Defense consulting service.

I know there is a great deal of concern over how much money the Department of Defense spends and possibly that can be equated to the high cost of technology. But I think that it needs to be broadened by examples of areas outside of the Department of Defense, such as the arena of what I think Senator Pryor has such a key interest in, the consulting business. It is not narrowed to the Department of Defense.

I would like to know why the services can't be provided in-house and not outside by the use of consultants.

Mr. GOULD. I think there are a multitude of reasons. One of the things we tried to point out in this last report, there are about 400,000 Federal employees doing commercial type activities in the Government and as many as 200,000 of these could be contracted out to the private sector in many cases at lower cost. The positions made available could be used to provide some relief from the ceilings that have been levied on the agencies. Ceilings are often cited as reasons for contracting out Government functions.

Salary is also a problem. It is convenient to have someone that you had in the organization before who knows the subject well to follow through on a project. There are a number of reasons. But we will be happy to do what you have asked.

EXPERTISE OF IN-HOUSE CONSULTING SERVICES

Senator MATTINGLY. What would happen to the Government if we made everybody do it in-house and not farm it out?

Mr. GOULD. All Government functions?

Senator MATTINGLY. Consulting functions. Having come from the private sector, I have observed people doing a consulting function for the Federal Government, which I didn't really notice them having a great deal of expertise. We do have people who live here in Washington, D.C., working for the Federal Government that I feel might be able to perform, in that arena.

That is what I am saying: We keep talking about the expertise that lies outside of the Federal Government, but I think that it is quite feasible that we have the expertise in-house and we don't need to have grants to consulting areas.

I would like to have some examples of what is being done on the outside and let's compare it. We will inquire here about why HHS couldn't have done it.

Thank you.

[The information follows:]

CONTRACTS CAPABLE OF IN-HOUSE PERFORMANCE

Three examples of contracts awarded by civilian agencies which we believe should have been performed by in-house personnel are:

A Department of Commerce contract for $25,000 for analysis, advice, and recommendations on the development of a Floating Department Store. After the contractor was interviewed by the Deputy Director of the responsible Bureau, it was determined his experience was cruicial to the project's success. The additional justification for the contract stated "* * * this type of expertise is also not available from in-house sources." The program officials agreed to an early termination of the contract and recommended the contract be reduced by $18,109. The officials stated the contractor's work was inferior to that of the in-house staff and the remaining effort would be completed by in-house staff and volunteers from industry.

A Department of Labor contract for $78,330 to provide an agency with personnel classification surveys. The work done by the contractor consisted of routine "desk audits" of the agency staff positions. According to an agency official, a contractor was needed to do the work because the in-house staff was not trained and/or capable of doing the work. However, the official said this work was of a regular and recurring nature which should have been done by in-house staff. The contract was subsequently terminated because agency officials felt the in-house staff had the capability to perform the work.

An Office of Education (now Department of Education) contract for $71,425 to develop a system to determine crucial issues in postsecondary education. Contract tasks were to (1) analyze current literature, speeches, and so forth to identify important issues and (2) analyze inquiries for educational information received at the agency and classify by source and issue. Prior to award of this contract, an agency task force identified issues relating to postsecondary education, but the officials thought a "system" needed to be developed to identify these issues. However, the contractor's end product was considered to be of poor quality by the project officer, and key issue areas are now being identified by in-house personnel.

Source: "Controls Over Consulting Service Contracts At Federal Agencies Need Tightening", PSAD-80-35, March 20, 1980.

CONCLUDING REMARKS

Senator MATTINGLY. Thank you, Mr. Chairman.

Chairman HATFIELD. Mr. Gould, we have not kept our commitment to you. We extended our time by 15 minutes. We were hoping to get you out of here by 11 o'clock, but you see, you stimulated a great deal of interest. We will excuse you now. We thank you all for appearing this morning and we will submit to you further questions and continue our dialog with you on the subject.

Mr. GOULD. Thank you, Mr. Chairman. It has been a pleasure being here.

Chairman HATFIELD. We will stand in recess for 5 minutes until the vote is completed.

[A brief recess was taken.]

DEPARTMENT OF THE TREASURY

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF EDWIN L. HARPER, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

ACCOMPANIED BY HAL STEINBERG, ASSOCIATE DIRECTOR FOR MANAGEMENT

AUDIOVISUALS AND DEBT COLLECTION

Chairman HATFIELD. The hearing will resume.

Mr. Harper, I wonder if we can impose upon you to begin your statement now out of order because Senator Pryor has not returned and we do not want to loose time. When he does return, would you mind then letting us interrupt you and let him make his statement and then we will complete yours?

We do have your full statement which will be placed in the record, and we will ask in consideration of the timeframe we are operating in, if you will summarize your statement.

Mr. HARPER. I will be happy to do so. I am accompanied by our Associate Director for Management, Hal Steinberg.

We are indeed pleased to have the opportunity to meet with the committee on a very important and indeed a very interesting topic because it gets to the heart of some very important management considerations. We understand the committee is interested in finding, through its subcommittees as they go through the appropriations process, additional areas to make sure that the resources of the American taxpayers are used in the most effective possible manner.

In addition to the three topics in which the committee expressed special interest—travel, consultants and training—we would also like to share with you some ideas about audiovisuals and debt collection.

First of all, I think the idea needs to be put in context, since looking at any of these issues in a vacuum can create some serious problem—perhaps inadvertently harming some necessary and valuable programs and frustrating our shared mutual objective of efficient and effective operation of Government.

BASIC PRINCIPLES CONSIDERED IN SEARCH FOR FRAUD AND WASTE

I think there are three basic principles that certainly I take into account in evaluating programs and looking for fraud and waste. One of these is to concentrate on program results as opposed to program objec-

tives; second, is to propose specific program changes to eliminate waste—and, indeed, the biggest savings I think we are going to realize are in the area of waste as opposed to fraud; and finally, use across-the-board reductions infrequently because of their potential deleterious effects.

These are an important and useful management tool, but I think if they are overused, they can create some problems.

Of course, we use these techniques and others in preparing the President's budget. Thus we feel it has been pretty well screened for fraud and waste items. This doesn't mean that we are able to forecast how much fraud we are going to find in a particular year since that is very hard to forecast. I think the closest we can come in those areas will be something like the rates that we can statistically expect in various programs.

We looked for vulnerabilities and concentrated on the systems that will prevent problems in the future, such as internal control, financial management, audit and review, checks and balances, things such as this.

INSPECTOR GENERAL PROGRAM

And, finally, the Inspector General's program we think makes a very important contribution to this overall effort because they can identify both anecdotal problems as well as systemic problems and recommend systemic improvements.

In applying our first principle, focusing on results, it is important to distinguish between the actual results and the stated objectives of some programs. In many cases you can have very novel and important objectives, but a program poorly designed, poorly implemented and poorly executed does not benefit the intended beneficiary or the American taxpayer.

And we have proposed in the President's budget this year a number of specific changes which we feel, with management improvement of various kinds ranging from straightforward improved efforts to uncover fraud, to retrospective accounting, cost sharing, tighter administration and things like this, will mount up to substantial savings.

With respect to various across-the-board line item reductions, indeed it is a tempting budgetary technique and this administration has used it in its budgeting for travel, consultants, personnel and even a moritorium on the purchase of small equipment. But, we must recognize it is basically an arbitrary device that used too frequently and with too heavy a hand can jeopardize desired program results and create some very ironic anomalies.

TRAVEL EXPENSES

A couple of examples in the travel areas. For example, I am familiar with what has been judged one of the best managed companies in America. And, frankly, if there is an executive in that company who is at corporate headquarters when there is a problem in the field, the chairman of the board wants to know why because it is his expectation that that manager will be where the problem is and handle it on an eye-

ball-to-eyeball basis. Some of the perversions that are created through these arbitrary techniques might be seen in one example published in a recent Wall Street Journal article where the Park Service, having run up against the travel budget ceiling, instead of posting a couple of its employees at a seminar about 150 miles away in the State, had them commute each day. What this accomplished was they used cars that were charged to the operations account, their extra time was charged to overtime and thus there were no dollars charged to travel, but instead went into other accounts. A more rational approach, probably better for the objective of having these men attend the meeting, would have been for them to stay overnight.

That is one minor example of the kind of thing that can happen with this type of technique.

SAVINGS RESULTING FROM ELIMINATING FRAUD AND WASTE

We think that overall the results of looking for fraud, waste, inefficiency and mismanagement represents savings of some $7½ billion which has been included in the President's 1982 budget. For example, about $4.5 billion coming from various program changes, one-half of a billion dollars from administrative changes—travel consultants, and about $1.2 billion in debt collection and improved cash management.

VULNERABILITY TO REDUCE FRAUD AND WASTE

With respect to identifying the vulnerability to reduce fraud and waste, we feel this is the most important prerequisite to management action. We have identified in the chart included in my statement some specific characteristics that yield vulnerability from program to program. Some of the things that the committee may wish to take a careful look at are large dollar-size programs; programs with widely dispersed program organizations and/or recipients; indirect management when somebody else runs the program versus direct management; large number of personnel; large number of recipients; programs emphasizing new technology or information; mature versus new programs or organizations; regulatory or enforcement programs; programs providing loans, grants or services; and programs with intermittent layers before delivery to ultimate recipient. And finally, one other I would add that isn't in the statement: It seems like there is a proliferation of relatively small priority items that too often escape notice, and it just seems like too much trouble to take care of, and those are the kinds of things we continuously try to scout up and suggest as reductions.

MANAGEMENT ACTIONS TO REDUCE FRAUD AND WASTE

Moving on to some management actions to reduce fraud and waste, I think it is important to look at some specific areas, such as those the committee suggests. In the travel areas the Office of Management and Budget is in the final stages of a travel study which, when completed, which could be very shortly, will produce a fairly comprehensive picture of what is going on in the travel area and contain some specific suggestions and recommendations for improving travel management in Government.

As a matter of fact, we feel that there will be some significant reductions we will be able to realize as a result of these recommendations—something in the neighborhood of perhaps $200 million, and of that $200 million about $120 million we feel would come from reduced travel costs, recognizing discounts, encouraging telecommunications, and other things such as this. In addition, consistent with the suggestions of the General Accounting Office, we believe that we have some specific processing changes in mind which should net a reduction of some $80 million in current Federal costs.

STREAMLINING TRAVEL POLICIES

Thus, we are concentrating on streamlining travel entitlement policies and reimbursement procedures; strengthening travel arrangement and procurement policies and procedures; strengthening travel cost accounting and management guidance; and installing a travel management assessment and audit process which can be used to identify inefficient travel management practices. And, indeed, the President's 1982 budget reflects a $78 million reduction resulting from savings in fiscal 1982.

CONSULTANTS

With respect to consultants, here our objective is to eliminate abuses, but there are appropriate uses for consultants and this should be continued, but certainly through a critical framework such as suggested in our most recent revision of the consulting guidelines.

One additional thing we have done to discourage unwarranted uses of consultants is to provide some specific guidelines to the Inspectors General in the 16 major agencies and now to the Assistant to the Secretary of Defense (Review and Oversight). They can use these specific guidelines to review any consulting contracts on a spot basis that are made by their department program managers.

The President's fiscal 1982 budget reflects a $42 million savings in the area of consultants.

TRAINING PROGRAMS

With respect to training, here we are talking about eliminating unnecessary training. A lot of training is absolutely essential. The Government is the basic trainer of air traffic controllers, for example, IRS, FBI agents. We do need to have better management controls so that we can distinguish between real training needs and wish lists. I think it is important that we all recognize that the Government as an employer has a responsibility to its employees to make sure that they are concerned about their personal development and from time to time over a person's career some types of training are appropriate and necessary; but we do need to make sure they contribute to the end objectives of the Government.

AUDIO-VISUAL ACTIVITIES

Briefly another area that we have gotten into that hopefully will yield some results is the area of audiovisual activities, pamphlets, and miscellaneous periodicals. Here the President issued an Executive order asking for a moritorium on new publications of this sort and the agencies are in the process of installing systems to control this type of activity. We have developed an internal control model, the first of several, which will deal with crosscut functions and operations. We will have a complete report on the results of these control systems and our survey of expenditures on audiovisuals in early August.

DEBT COLLECTION

Finally, with respect to debt collection. We believe this is a high priority area and one that requires top level attention in virtually every department. The reason for that is there is $25 billion of funds in a delinquent status owed to the Federal Government as of September 1979. This amounts to some $10 million a day of the taxpayers' money which is being wasted. We are taking administrative actions that we feel are not sufficient alone, and have asked for some legislative help in this area.

BATTLE AGAINST FRAUD AND WASTE

Finally, with respect to the fraud and waste program, I think it is important for Federal managers and this committee to be aware that program managers are not alone in seeking improvements in this area. The President made fighting fraud and waste a responsibility of agency heads to establish an institutional mechanism for pursuing that, and established the Council on Integrity and Efficiency to work with the agency Inspectors General to focus the administration's efforts to fight fraud and waste. We will shortly be issuing the first semiannual report of the Inspectors General, which I think shows some interesting results.

For example, over 16,000 audit reports have been issued in the first 6 months; and 2,300 investigative cases were closed resulting in over 300 indictments and 300 convictions. Actual dollar recovery to the Federal Government, $95 million in the last 6 months; cost avoidance in the neighborhood of $300 million.

PROGRAM REFORMS TO ELIMINATE WASTE

In conclusion, the clues that we have been offering were carefully considered by the President and reflected in the budget which the Congress is now considering. We believe the budget makes sense and warrants congressional passage.

The key to that budget, the key to real savings, is program reform to eliminate waste. We believe the committee, too, may want to concentrate on program reform avoiding the problems and distortions of overfocusing on administrative line item cuts which rarely yield the expected beneficial program results.

We, of course, are trying to focus on the program and systemic improvements and control that will be effective and yield efficient programs.

We appreciate the committee's keen efforts and commitment to these improvements. We recognize the efforts that individual members of the committee have made in many of the areas we have mentioned this morning and look forward to working closely with you in the areas of eliminating fraud, waste, and inefficiency in the Government.

Thank you.

Chairman HATFIELD. Thank you, Mr. Harper.

Following insertion of your prepared statement in the record, we will ask Senator Pryor to make his presentation.

[The statement follows:]

PREPARED STATEMENT OF EDWIN L. HARPER, DEPUTY DIRECTOR

OFFICE OF MANAGEMENT AND BUDGET

Mr Chairman and Members of the Committee:

I am pleased to have the opportunity to discuss with you today our ideas and suggestions for how to locate and identify Federal programs that are potentially vulnerable to fraud and waste, and how to deal with the problems of fraud and waste most effectively, particularly in the budget process.

I understand that the Committee is interested in "clues" to provide to its subcommittees in thinking about where to look for fraud and waste as they go through the appropriations process, and that you are especially interested in potential vulnerability to fraud and waste in the areas of travel, the use of consultants, and training. We would also like to share some ideas with you about audio-visual and debt collection programs. We have some firm suggestions to offer in each of these areas.

First, however, I would like to put our ideas into a context for you, since looking at any of these issues in a vacuum involves a real and a serious risk of inadvertently damaging necessary and valuable programs that make constructive contributions to the very objective we seek to achieve -- efficient and effective operation of Federal government programs.

Basic Principles

We believe three basic principles need to be applied when looking for fraud and waste in the context of the budget process:

- o concentrate on program results as opposed to program objectives.

- o propose specific program changes to eliminate waste.

- o use across-the-board reductions infrequently because of their potential deleterious effects.

The President's Budget already has been screened for fraud and waste based on these principles. This does not mean that we have identified and excised specific amounts of money in each agency's budget labeled "fraud and waste." We cannot budget on the assumption that "X%" of a program represents fraud and waste because there is no way to develop a valid projection of fraud and waste.

Rather, we looked for potential vulnerabilities and risks in programs and then concentrated on the systems in place or needed to prevent the problems: systems of internal control, financial management, audit and review, checks and balances, and so on. This approach is also reflected in the Administration's major thrusts through the Inspector General program: identify systemic problems and recommend systemic improvements.

In applying the first principle, it is important to distinguish between actual results of a program and its stated objectives. While the objectives of a given program may be perfectly appropriate, the practical results achieved may be very different from what was intended. In such cases we believe it is prudent, and necessary, to make specific program changes, the second principle to which I referred.

If a given program represents waste of the taxpayer's money, decisions need to be made to change that program. Perhaps the most striking illustration of the application of this principle is the decision to phase out the Community Services Administration and continue the effective parts of its activities through the block grant approach.

Other examples appear throughout the President's Budget. Each represents savings that we believe will be possible as a result of operating improvements in such areas as:

- o improved Medicare/Medicaid management;
- o disability insurance management improvements;

- o lower error rates in AFDC and SSI, improved child support collections and other SSA initiatives;

- o CETA grant consolidation; and

- o Food Stamp and Child Nutrition management.

Management improvements in these areas reduce the risks of fraud and waste.

Across-the-board line item reductions are a tempting budgetary technique which this administration used in preparing its budget with respect to travel, consultants, and personnel. In using that technique we must realize that this is an arbitrary management device to refocus program managers' attention on overhead spending items. If used too frequently or with too heavy a hand, this approach can jeopardize the desired program results.

For example one of the best managed firms in the country has a very large travel budget, because the company's chief executive officer demands that his managers have first hand knowledge of a problem and that they not rely on memos or a telephonic description of the problem. Certainly there have been travel abuses in government, but to capriciously reduce travel below some level will have negative results.

I am providing for the record a table that summarizes the major results of our application of the three principles in the President's Budget. As the table shows, the President's Budget provides for savings of $7.5 billion in 1982 spending, including almost $4.5 billion resulting from the program changes I have mentioned, half a billion from administrative changes (e.g., travel consultants, other), and $1.2 billion in debt collection and cash management improvements.

Although, as the table shows, we have employed budgetary savings techniques in addition to specific program changes, we believe that across-the-board line item cuts must be used only sparingly, to avoid the risk of penalizing the intended beneficiaries of the affected programs. Consequently we recommend that the Committee and its subcommittees beware of across-the-board cuts.

Identifying Vulnerability to Fraud and Waste

A prerequisite to management actions to reduce fraud and waste is identification of the points of potential vulnerability. What are the specific characteristics of a program that make it vulnerable to fraud and waste? While this question must really be answered separately for each particular program, we can illustrate some general characteristics that, over time, have tended to indicate some potential for vulnerability to fraud and waste. As the Appropriations subcommittees look for the potential for fraud and waste they may wish to consider the following types of characteristics:

- o large dollar-size programs;
- o widely dispersed program organizations and/or recipients;
- o indirect management (e.g., grants-in-aid) vs. direct management;
- o large number of personnel;
- o large number of recipients;
- o programs emphasizing new technology or information;
- o mature vs. new programs or organizations;
- o regulatory or enforcement programs;
- o programs providing loans, grants, or services; and
- o programs with intermittent layers before delivery to ultimate recipient.

Management Actions to Reduce Fraud and Waste

As management examines its programs and systems for vulnerability, it may conclude that some of its problems are in administrative areas such as those the Committee has expressed interest in -- travel, consultants, and training. We have been actively working in these areas, as well as

in audio-visuals and debt collection, and would like to share with you what we have found and what we think should be done to make improvements. As the subcommittees examine agency budgets they may well wish to examine these administrative questions. We urge them to do this -- but within the context of the purpose and value of each individual program being reviewed.

We have provided for the record a matrix which offers some indications of possible relationships between vulnerability characteristics we have identified and the administrative areas in which the Committee has expressed interest.

Travel Management

Travel funds invariably receive attention when we think about saving money or eliminating fraud and waste. What this has told us is that travel management requires attention. A current OMB study will provide a comprehensive picture of Federal travel characteristics and a solid foundation on which to make specific management improvements without the potentially disruptive effect of an across-the-board budget cut of the travel account.

In developing management actions to respond to the findings of the study, we are focusing on four areas:

- o streamlining travel entitlement policies and reimbursement procedures;
- o strengthening travel arrangement and procurement policies and procedures;
- o strengthening travel cost accounting and management guidance; and,
- o installing a travel management assessment and audit process which can be used to identify inefficient travel and travel management practices.

We will be testifying before Congress later this summer on the detailed results of our study and the initiatives we are taking to better control travel. The President's Budget reflects travel savings of $78 million in FY 1982.

Consultants

Our objective in the area of consultant contracts is to eliminate abuses, but not to eliminate the appropriate use of consultant services. We believe that aggressive agency management and effective control and disclosure requirements will permit us to achieve this objective.

Several initiatives have been taken to improve controls and monitoring of consultant contracts. For example, some of the controls in place are: all consulting service contracts must now be identified and entered in the Federal Procurement Date System; written justification and approval are required at a level above the sponsoring organization--and during the fourth fiscal quarter, at two levels above the sponsor; and, agencies are required to submit to OMB plans for agency management control systems for consulting services. Those plans, have all been approved, and we are confident that once they are fully implemented abuses which occured in the past will be substantially reduced.

In addition, we are addressing this issue as part of the development of the new Federal procurement system. We are examining the necessary control and feedback provisions with particular emphasis on the abuse that can arise based on organizational conflict of interest. We are also designing features to ensure that competition is built into the system.

The President's Budget reflects savings of $42 million in the area of consultant and management services.

Training

In the area of training, there is always the possibility of waste through unnecessary or irrelevant training. The great bulk of government training, however, is involved in teaching Federal employees how to do their jobs or some aspects of their work. This is primarily because many government occupations do not have direct counterparts in the private sector, and the necessary training or education or experience is not available elsewhere. Air traffic controllers would be a currently topical and prominent example. However, the numerous agents of the FBI or the Internal Revenue Service

are typical in their need for specialized training beyond what they already may have received before their government employment.

Our task is to distinguish between necessary training and any excesses or abuses that may be occurring. This can be accomplished through improved management control efforts, backed up by appropriate Inspector General audits.

Audio-Visuals

Another area that is generally perceived to be vulnerable to waste and abuse is Government spending on periodicals, pamphlets and audiovisual products. This subject has received substantial coverage in the news media recently. On April 20, 1981, the President directed all agency heads to stop the production and procurement of new audiovisual products and the printing and distribution of new periodicals and pamphlets. In implementing this Presidential freeze, OMB has instructed agencies to conduct a comprehensive review of all existing products covered by the moratorium, to eliminate products that are not essential to the accomplishment of agency missions, and to compile data and identify savings achieved from the moratorium and review. The agencies then must install control systems to prevent future abuses and waste in this area. These control systems must be installed before the moratorium can be lifted. We will have a full report on this effort in August.

We have chosen to use the audio-visual issue as a case example for developing a "model" internal control system. The model highlights the critical points in the process at which internal controls are needed to prevent waste. We have now shared the model with persons in each agency responsible for acquiring audio-visuals and publications, the Inspectors General, and agency Assistant Secretaries for Management.

Based on their positive reception of the idea, we plan to develop similar internal control models for other cross-cut functions and operations, initially in administative and overhead areas.

Debt Collection

A clear form of waste of taxpayer dollars is weak debt collection by Federal agencies. As you know, we have placed a high priority on improving the Government's debt collection processes. The problems associated with debt collection resulted in more than $25 billion of the debts owed the Government on September 30, 1979, being delinquent or in default - and another $8.4 billion in loans being rescheduled or stretched out because borrowers were unable to pay.

We have initiated an aggressive program to improve debt collection practices--both administrative action and proposals for legislative remedies. On the administrative side, we have directed agencies to prepare detailed plans for describing major debt collection issues and to identify specific actions to be taken in resolving those isses. In the interim, we are working with the Treasury to revise and improve the current reporting system which provides information on debt owed the Government, and are working with Justice to improve the organization and administration of the litigation process to provide for more timely and effective litigation.

We recognize that administative actions alone will not solve these problems, and are seeking legislative assistance to eliminate some of the disincentives that presently exist in the Government's debt collection process; to make available essential tools and techniques commonly used in the private sector; and, to provide for increased efficiency and effectiveness in the way the Government goes about granting, servicing, and collecting credit.

President's Anti-Fraud and Waste Program

To this point, I have concentrated my remarks on managment improvement efforts to achieve savings and reduce fraud and waste. I would like to emphasize, however, that program managers are not operating alone in this area. While the President has directed that each of his agency heads treat the elimination of fraud and waste as a personal priority, he has also established an institutional mechanism to assure that this effort receives appropriate attention.

On March 26, the President established the President's Council on Integrity and Efficiency to work with the agency Inspectors General and to focus the Administration's efforts to fight fraud and waste. The Council has been functioning actively for three months now and has established an ambitious agenda of governmentwide projects to combat fraud and waste. At the same time, the individual offices of Inspector General continue to make substantial contributions.

We have just completed a preliminary review of the most recent Inspector General semi-annual reports to the Congress covering the first six months of FY 81. The review indicates considerable accomplishment, comparing favorably to FY 80 activities. Some basic summary statistics show that for the first half of FY 81:

- The IGs questioned over $1.2 billion in costs. This compares to total costs questioned or saved for all of FY 80 of approximately $1.35 billion.
- The IGs issued over 16,000 audit reports.
- Over 2300 investigative cases were closed, resulting in over 300 indictments and over 300 convictions.
- Reported actual dollar recoveries total more than $95 million.
- IG recommendations resulted in cost avoidance of over $300 million.

The individual Inspector General semi-annual reports might also be of value to your subcommittees as they review their agencies' budgets.

Summary

The "clues" that we have been providing for you to share with your subcommittees in thinking about where to look for fraud and waste have all been carefully considered by the President and are reflected in his decisions that led to the budget the Congress is now considering. We believe that budget makes sense and warrants Congressional passage.

The key to the President's Budget--as well as to eliminating fraud and waste--is program reform. We believe that the

Committee, too, should concentrate on program reform, to keep program results consistent with program objectives, as it reviews agency budgets. In this way it can avoid the unnecessary problems and distortions inherent in over-focusing on cuts in administrative line items. As the Committee knows, such across-the-board cuts rarely result in beneficial program results. We want to focus on programs and systemic improvement and controls to assure that those programs are conducted effectively and efficiently.

We appreciate the Committee's interest and commitment to improve government operations, and look forward to working closely with you in the effort to eliminate fraud and waste in government programs.

I would be pleased to answer any questions you may have.

BUDGET SAVINGS FROM PREVENTION OF INEFFICIENCY, FRAUD, AND OTHER WASTE AND ABUSE
(In millions of dollars)

	1981		1982		1983		1984	
	BA	O	BA	O	BA	O	BA	O
ministrative Savings:								
Travel	62	66	79	78	73	73	74	7
Consultants and management services	19	17	45	42	28	28	28	2
Equipment	13	13	11	11	11	11	11	11
Other administrative savings, e.g. salaries and expenses 1/	348	322	446	421	662	612	1,034	91
Subtotal administrative savings	442	418	581	552	774	724	1,147	1,02
uisition management/productivity improvements	207	47	616	198	550	242	791	436
t collection/cash management 2/	13	163	1,023	1,223	1,027	1,027	1,030	1,030
ulatory reform	94	75	464	413	530	492	628	601
er management improvement:								
Medicaid cap	350	100	1,227	944	2,567	2,325	3,939	3,652
Improved Medicare/Medicaid management	154	929	257	1,486	---	---	---	---
Disability insurance management improvements	---	50	---	200	---	500	---	700
Lower error rates in AFDC and SSI, improved child support collections and other SSA initiatives	298	347	411	513	---	---	---	---
CETA grant consolidation	---	---	145	164	273	272	277	276
Food stamp and child nutrition management	125	124	230	220	251	250	259	258
Other	135	151	884	950	1,221	1,343	1,284	1,432
Subtotal	1,062	1,701	3,154	4,477	4,312	4,690	5,759	6,318
lian agency pay absorption	---	---	478	458	---	20	---	---
s-Bacon and Service Contracts Act	---	---	220	220	400	400	600	600
Grand total	1,818	2,404	6,536	7,541	7,593	7,595	9,955	10,012

May ultimately include cuts in travel, consultants and management services, and equipment.
Includes expected savings from debt collection of $1.0 billion in FY 1982 - 1984 that were netted in the allowance for contingencies.

The following matrix is an illustrative example of the type of conditions that have historically indicated a potential vulnerability for fraud and abuse. The matrix is generic in that any government program/agency can be analyzed using these indicators. Four administrative areas have been isolated because they have been recent are of concern and on three, specific control programs and substantial analyses have been designed or are under specific development.

CHARACTERISTICS OF PROGRAMS WITH HIGH LEVELS OF VULNERABILITY TO WASTE AND ABUSE IN SELECTED ADMINISTRATIVE AREAS

Insert Agency / Areas of concern	Large program Dollar Size	Large Number of Personnel	Large Number of Recipients	Widely Dispersed Organization or Recipients	Indirect Delivery of Services	New or Developing Program or Agency	New Technology or Information	Monitoring or Enforcement	Programs providing loans, grants, or services	Direct management vs. indirect management
Travel		✓	✓	✓				✓		✓	
Training		✓			✓		✓				
Consulting						✓	✓		✓	✓	
Audio-visual	✓		✓				✓				

CONGRESSIONAL WITNESSES

STATEMENT OF HON. DAVID H. PRYOR, U.S. SENATOR FROM ARKANSAS

CONSULTANTS

Chairman HATFIELD. We have already introduced you in the opening remarks as one who has been a very able leader in this area of analysis, investigation and use of consultants. So, we welcome you to the committee to give us the benefit of your background and expertise.

Senator PRYOR. Mr. Chairman, I have no expertise and very little background, but——

Chairman HATFIELD. You have a bill.

Senator PRYOR. I feel a little bit like Pavlov's dog when it comes to talking about consultants. When the name comes up, I start barking. I am proud to be here today and I appreciate very much the opportunity that you have extended to me to be present with you and the very distinguished ranking minority member of the Appropriations Committee and the other members of the committee who have been most instrumental in trying to bring this matter under control.

Mr. Chairman, I have a short statement. I will summarize that statement. if I might.

ACTIVITIES OF GAO

I would first, Mr. Chairman, think I would be remiss if I didn't say just a kind word, and I don't think too many people say kind words about the General Accounting Office. I think that these people have done an absolutely superb job, Mr. Chairman, in bringing to light some of the abuses that we are looking at today. And I would just like to say as one individual taxpayer that I think they have done an absolutely outstanding job in taking a leadership role, responding to the Congress efficiently and accurately in their reports that we are discussing today.

I think, Mr. Chairman, that with the passage of each new law and the emergence of every new crisis and the creation of every new program, we find cause for delegating further the basic work of Government to an ever-growing contractor work force that is increasingly planning and implementing Federal policy and programs.

EXTENT OF CONSULTING PROBLEM

As the GAO has recently summarized, the consulting problem has been with us for at least two decades, and Federal managers have done little to bring it under control. It is now apparent that the issues posed by the use of consultants are not simply management issues, but are the very basic questions of Government that command the attention of every American.

In fact, I have referred to this ever growing work force as the unelected government. And that is exactly what it is.

During our investigation of this matter over the past couple of years, we have found countless Government consultant studies costing millions of dollars that are a total waste because they are never used by the agencies. They were not justified to begin with and they have no one to read them once they are delivered.

We have found conflicts of interest which negate the objectivity and the independence that the Government thought it would obtain when awarding the consulting contract.

We have found that consultants have been awarded contracts to perform basic governmental functions, including writing Federal regulations, drafting legislation, and preparing agency budgets to be sent to Congress.

We have found large numbers of unnecessary contracts for consultants, millions of dollars worth, that were awarded in the last days of the fiscal year.

We have found almost a complete absence of competition in awarding consulting contracts despite estimates that competition saves 20 percent of the contract's price. Often these contracts are awarded not on the basis of a firm's qualifications but, rather, on the contractor's friendships with agency officials.

SOLE-SOURCE CONTRACTS IN DOD

For example, we found that last year in the Department of Defense, according to a recent GAO study that I requested which was delivered in March of 1981, that 82 percent of the contracts requested there of a consultant nature were done sole source, 82 percent without any competitive bid whatsoever. In fact, in procurement dollars last year, the Department of Defense spent $30 billion, I repeat, $30 billion, without any competitive bids whatsoever.

COST TO TAXPAYERS OF CONSULTANT SERVICES

Mr. Chairman, the effects on this Nation's economic problems are certainly being felt by our constituents and in every household in this country. The President and the Congress recognized the urgent need for severe cuts in a runaway budget. And one area where Government expenditures can be reduced with a real and positive effect is in the use of consultant services, which amount to $4 billion annually, or about $10 million a day.

We are spending about $10 million a day for consultants.

Consultants to the Federal Government have become truly the invisible bureaucracy of America. They perform millions of dollars worth of business generated from the Federal agencies. It has spawned an entire new industry in the last decade. This has grown to the point where we have not only consultants doing business with the Federal Government, but also consultant subcontractors, associations of consultants to represent their interests, and expensive seminars advertised and conducted to teach people how to take advantage of the Federal funds available for consultant contracts.

The cost to the taxpayer of supporting the consultant industry has mushroomed. Again, $10 million a day probably represents a conservative estimate of expenditures for Government consulting services.

RESPONSIBILITY OF CONGRESS FOR CONSULTANT ABUSES

Hearings that I chaired last Congress and the investigation by the staff of the Governmental Affairs Subcommittee have produced hard and conclusive evidence of serious, costly abuses in the Government consulting area. We should recognize, I must admit, Mr. Chairman, where the blame lies. For the past 35 years Congress, as an institution, has routinely delegated many of its responsibilities and obligations to the executive branch and to the departments and to the regulatory bodies of Government.

In fact, Mr. Chairman, I would like to submit as a suggestion to our distinguished ranking minority member, Senator Proxmire, that the next Golden Fleece Award might be given to the U.S. Congress because we have unknowingly become the fleecor and the taxpayer has become the fleece in allowing this Government's consulting industry to mushroom.

Today we find that the same governmental agencies to which we have delegated these responsibilities are now delegating these obligations to contractors from the private arena. It is the invisible bureaucracy. It is pervading our governmental system, and in some cases, literally taking over the decisionmaking process of our Federal Government.

This is why it is today's unelected government.

As official and popular concern for the growth of big government continues to intensify, the time is long overdue to make sure that the contractor portion of big government is under control. I only hope that in the appropriations process and in the oversight process that we have the power to begin taking those steps necessary to get this matter under control.

INTRODUCTION OF S. 719

Mr. Chairman, I have introduced legislation, S. 719, with several colleagues who joined as cosponsors which we call the Consulting Sunshine bill which we think will allow sunshine and the light of day to be focused on this issue. Certain provisions of this legislation are most controversial, but I am very hopeful that in the near future we will be able to pass this legislation through the committees and bring it to a vote on the floor of the Senate and hopefully the House.

I do once again, Mr. Chairman and all members of this committee, appreciate so much your invitation and your allowing me to be here. I must say that I am very frustrated about this issue. I believe when we talk about wasting billions of dollars of taxpayers' money, the travel that Senator Sasser has talked about, and other areas that we have discussed this morning, somehow or another the taxpayer may be somewhat immune to billions of dollars being wasted; they expect that. If we talk maybe about $200 a night for a hotel or something like that, they can relate to that and they get mad about it. But somehow, the tax-

payers are very angry, very frustrated and maybe have given up on this issue. But, I hope that we can keep it before the Congress and certainly it is my hope that we can receive favorable attention in the Congress as we pursue this matter and begin to bring Government consulting under control. It represents at least a step toward common-sense in the contracting business.

Mr. Chairman, that concludes my statement. And once again, I thank you.

[The statement follows:]

PREPARED STATEMENT OF HON. DAVID H. PRYOR, U.S. SENATOR FROM ARKANASAS

Mr. Chairman, for the past 2 years, I have conducted an investigation of the billions of taxpayer dollars that the Federal Government spends each year for consultant services. The results of my investigation have convinced me that what we have is not random waste—but the result of a basic change in the way our Government does work.

Today, the passage of each new law, the emergence of each new crisis, the creation of each new program, is cause for delegating the basic work of Government to an evergrowing contractor work force that is increasingly planning and implementing Federal policy and programs.

As the General Accounting Office has recently summarized, the consulting problem has been with us for at least two decades, and Federal managers have done little to bring it under control. It is now apparent that the issues posed by the use of consultants are not simply management issues, but basic questions of Government that command the attention of us all.

During our investigation, we have found many consultant studies, costing millions of dollars, that are a complete waste because they are never used by the agencies. We have found conflicts of interest which negate the objectivity and independence that the Government thought it would obtain when awarding the consulting contract.

We have found that consultants have been awarded contracts to perform basic governmental functions, including writing Federal regulations, drafting legislation, and preparing agency budgets to be sent to Congress.

We have found many unnecessary contracts for consultants, costing millions of dollars, that were awarded in the last days of the fiscal year just to avoid returning unspent funds to the Treasury.

We have found almost a complete absence of competition in awarding consulting contracts despite estimates that competition saves 20 percent of a contract's price. Often these contracts are awarded not on the basis of a firm's qualifications but, rather, on the contractor's friendships with agency officials.

Mr. Chairman, the effects of our country's economic problems are being felt daily by our constituents and in our own households. The President and the Congress recognized the urgent need for severe cuts in a runaway budget. One particular area where Government expenditures can be reduced with a real and positive effect is in the use of consultant services, which amount to $4 billion annually, or about $10 million a day.

Consultants to the Federal Government have become the invisible bureaucracy of this country. The volume of business generated from Federal agencies and departments has spawned a whole new industry in the last decade. It has grown to the point that, today we have not only consultants doing business directly with the Federal Government, but also consultant subcontractors, associations of consultants to represent their interests, and expensive seminars advertised and conducted to teach people how to take advantage of the Federal funds available for consultant contracts.

The cost to the taxpayer of supporting the consultant industry has mushroomed beyond all expectation; $10 million a day represents a conservative estimate of the expenditures for Government consulting services. Hearings I chaired last Congress and the investigation by the staff of the Governmental Affairs Subcommittee have produced hard evidence of serious and costly abuses in the procurement of consultant services.

We should recognize where some of the blame lies. For the past 35 years, Congress as an institution, has routinely delegated many of its responsibilities and obligations to the executive branch and to the departments and regulatory bodies of the Government.

Now we find that the same governmental entities to which we have delegated these responsibilities are in turn delegating these obligations to consultants and contractors from the private arena. I believe the use of consultant firms—this "invisible bureaucracy"— is pervading our governmental system, and in some cases, literally taking over the decisionmaking process of our Federal Government.

As official and popular concern for the growth of big government continues to intensify, the time is long overdue to make sure that the contractor portion of big government is under control. This control is vitally needed because the total amount spent on contracts now exceeds $100 billion. The magnitude of procurement spending entered into by the Federal Government requires that oversight be aggressive. Further, it requires detailed examination and thorough consideration in the budgetary and appropriations process. To help address these needs I have introduced S. 719, the Consultant Reform and Disclosure Act of 1981, cosponsored by Senators Proxmire, DeConcini, Williams, Baucus, Simpson, Burdick, Eagleton, Riegle, Levin, Percy, Sasser, Cochran, Bumpers, Moynihan, Heflin, and Metzenbaum.

I believe such legislation can be a major step forward, a step that must be accompanied by congressional efforts to review, and where appropriate, to cut expenditures. We face a major challenge, but the interest of this committee and others reflects a new commitment to congressional control over these expenditures. As one who has worked on this subject for some time, I am encouraged by your interest and hopeful that we will begin to fulfill our responsibilities to the taxpayers on this matter.

COSPONSORSHIP OF S. 719

Chairman HATFIELD. I thank you, Senator Pryor, for your very salient, poignant remarks on the subject and your leadership, as exemplified in S. 719, upon which I notice the cosponsorship of Senators Proxmire, Sasser, Eagleton, DeConcini, and Burdick who are members of this committee.

CONTRACT EVALUATIONS

Senator, in section 204 of your proposal S. 719, I notice that you have required a contract evaluation of all contracts in excess of $50,000 by the agency which has received such product. I understand there is no Government-wide evaluation or even perhaps areawide evaluation of such products now.

Do you know of such? And if not, is there any built-in evaluation process within any agencies that you know of?

Senator PRYOR. Mr. Chairman, to the best of my knowledge there is no evaluation process existing today under present law. This is why S. 719 addresses this issue as it does, to force evaluation by the agency of the contractor or the work product.

CONTRACT JUSTIFICATIONS

In addition to this, one other concern that our legislation does not address, and I wish it did, and I may amend it later, what we have had the most trouble in finding out about is what is the original justification for a contract. Why should an agency be forced to go out into the private market to secure the services of a professional contractor? And sometimes these are necessary; I am the first to admit and to acknowledge this.

DEPARTMENT RESPONSIBILITY FOR CONSULTING CONTRACTS

But the other area I would like to possibly amend my legislation to address, and one that presents a gnawing fear and concern to me, is that today we cannot find out who signs off on a consulting contract.

Yesterday in House hearings I testified with Department of Defense procurement agency officials there and I guess I sort of took them to task for not ever furnishing us a name or names of those individuals who ultimately make that decision to spend a certain number of dollars for a particular work product that was ordered.

And these two areas: one, the evaluation, and the identification of those individuals who are responsible—are things I hope that will be the spirit and the crux of S. 719.

AGENCY EXCHANGE OF CONTRACT INFORMATION

Chairman HATFIELD. Once such an evaluation is made, I request that it be made available for information to other agencies. For instance, if a contract product has been found to be below standard by one agency, why should any other agency then engage the same contractor for a product that he has proven incapable of providing.

So, it seems to me ought to be somehow provided as a broadcast to other agencies.

I might also say that we will begin within our own households, within the committees of the Congress. I am utterly amazed at the number of contracts that are approved almost routinely by the Rules Committee upon which I sit, unless some of us raise questions. Certain committees of this Congress, of the Senate I am speaking now, engage in an inordinate amount of contract work and at the same time have a fairly large staff for the committee. To my knowledge, some committees, in ratio to their contract work, produce very little legislation in any direct relationship to the contract.

It seems to me we might look at some of that. I would say that one of them, the Joint Economic Committee, constantly amazes me at the frequency with which they visit the Rules Committee for approval for contracts. I am not aware of any legislation they have produced. I think we can begin within our own households as well as the executive agencies of Government.

Senator PRYOR. Mr. Chairman, I think that is certainly a point well taken. We have also found some other interesting cases whereby when a Senator or a Congressman writes to an agency seeking information or assistance in one form or another, the agency bucks this letter that we send to a consulting firm for appropriate reply.

This is what I consider to be one of the great dangers in the consulting buildup, is that they are making the decisions today that our own people should be making.

UNSOLICITED PROPOSALS

Mr. Chairman, you also brought up one other point, and that is the area of unsolicited proposals that are allowable now and are utilized to the extent of being very very abusive.

Chairman HATFIELD. In spite of competitive bids.

Senator PRYOR. In spite of competitive bids. One scenario—and I don't think this is factual, but this is how this works—if we have a consulting firm doing work for Housing and Urban Development on why an asphalt parking lot might be superior to a concrete or vice versa. Then XYZ consulting will come up with the idea that since they have all this information already built up, and have done all the work, why don't they go to DOT with an unsolicited proposal to do them a job.

What they will do, they will go there and say, Listen, we want to give you all a sermonette here in the form of consulting work product to tell you why asphalt is better than concrete for the parking lots that you construct and we will have this out to you in no time.

Before you know it, there is unsolicited proposal. There is a sole-source contract and the XYZ consulting firm thus is doing the same job two times for the Government and getting paid twice. I imagine not just twice, but it can be done at DOD right on down the line. It really ought to be a great embarrassment to the Congress, and I think it is one where we have not only delegated our authorities, but we have just given a carte blanche check to these agencies to do it anyway they want. They have abused it—not all of them have—but I would say most agencies of the Government have, including the U.S. Congress.

Chairman HATFIELD. Thank you.

COST TO GOVERNMENT OF CONSULTANT SERVICES

Senator PROXMIRE. Senator Pryor, congratulations on what I think is an excellent and very useful statement. It was certainly most appropriate for presentation to this committee.

On page 2 you say:

> One particular area where Government expenditures can be reduced with a real and positive effect is in the use of consultant services, which amount to $4 billion annually, or about $10 million a day.

The estimates of how much the Government spends on consultants seem to vary widely and I wonder what firm basis there is for your estimate. OMB at one point, I think, said consultant contracts ate up $1.8 billion per year and then OMB said they cost $414 million, while the Senate Appropriations Committee's Investigative staff said the cost was $2½ billion per year. How can we determine what the size of the problem really is?

Senator PRYOR. Senator Proxmire, I am basically using what I would think to be a conclusion of the General Accounting Office as to the number of consulting dollars that we expend. The GAO has stated, if I am not mistaken, that their numerical findings were between $3 billion and $5 billion. And they have told us, I guess in conversation or elsewhere in report language, this is probably a conservative figure. So we struck a happy medium of $4 billion.

Senator PROXMIRE. When was that report made?

Senator PRYOR. March of 1981 on the Department of Defense and an earlier report prepared in the last session of Congress.

Senator PROXMIRE. This was a Government-wide report. I have the Department of Defense estimate, but I didn't have the Government-wide estimate. Did that report cover the entire Government?

Senator PRYOR. Yes, and that was March of 1980, and then a subsequent report of DOD in March 1981.

Also, Senator Proxmire, I would like to state that it is very hard to define what is a consulting contract—we have all sorts of contracts—contractors for janitorial services, contractors for public relations purposes contractors for studies and for garbage collection and whatever. But, basically, in an attempt to pinpoint and to identify consulting contracts per say, I think in accordance with GAO's and probably with OMB's definition, I think that would be a good general ballpark figure.

One of the prize memos that we have was written in the early part of President Carter's term when he wrote a memo to Bert Lance, the Director of OMB, and it basically went, "Dear Bert, please have by tomorrow a list of all the contractors or consultants that we are doing business with." And what it really amounts to is about 300 pounds of computerized books and tables of the number of firms and number of contracts that we have. We do have many of these listings in our committee's possession and we would be certainly more than happy to share and give to this committee any information that we have.

I have gotten pretty depressed about this issue. I think everytime I get up and open my mouth somebody expects me to talk about consultants, and I know I bore everybody with it, but I think it is a dangerous trend. And thanks once again for the privilege of coming here. I appreciate it.

LEGISLATION TO CURB CONSULTANT ABUSES

Senator PROXMIRE. I don't want to say any more because I know that time is late and we have other witnesses, but I am proud and happy to be cosponsoring your bill. I think you are not only speaking out against excessive consulting costs, but you are doing something about it. You have introduced legislation on this subject. And I might say I think that we have to do everything we possibly can to require competition and to disqualify former employees from being employed as consultants for a number of years. It is such an easy abuse. It is normal for a sperson to take care of his buddies. You expect that. You can predict it. You can throw $2,500 or $100,000 or several million dollars to your friends this way. I think you really got hold of something and I hope we can push it through.

Senator PRYOR. Thank you.

Chairman HATFIELD. Thank you.

DEPARTMENT OF THE TREASURY

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF EDWIN L. HARPER (Resumed)

EFFECT OF ADMINISTRATION-PROPOSED, ACROSS-THE-BOARD CUTS

Mr. Harper, now if we can ask you to return to the table please.

Excuse me. Senator DeConcini, did you have any questions for Senator Pryor? I apologize.

Senator DECONCINI. No, sir, thank you.

Chairman HATFIELD. Mr. Harper, I have one question.

In your statement at several places you criticized across-the-board cuts on activities such as travel, et cetera. Yet, the administration instituted a 15-percent cut across-the-board in this area.

What has been your experience with that 15-percent cut the President made on the fifth day of Office?

Mr. HARPER. We don't have the final results in on that, of course, but I think it certainly secured one of its objectives, and that was to get our agency heads and top management people to take another careful look at the whole issue of travel. That has got to be the objective of these kinds of across-the-board cuts, to more or less fire a shot across the bow at management, get their attention, force them to reexamine these overhead accounts to see what they can do to drive these expenditures out of these accounts.

Chairman HATFIELD. I believe in your directive implementing this 15-percent cut that you provided for an appeals procedure for extraordinary or other reasons that the agency might feel that there should be exemption. Have there been a substantial number of appeals and have you granted them?

AGENCY APPEALS ON 15-PERCENT TRAVEL CUTS

Mr. HARPER. The 15 percent was a general target and it has been adjusted agency-by-agency as they came in and specified and made a case for their specific situation. I don't have an account on how many agencies.

Chairman HATFIELD. Could you give us that for the record, how many agencies made the appeal and how many you granted and how many you denied?

Mr. HARPER. Yes, sir.

[The information follows:]

APPEALS TO TRAVEL REDUCTION

Appeals to the travel reduction were reviewed as part of the OMB budget process that led to the administration's revised 1981 and 1982 budget estimates. Travel reductions were taken into account in the course of determining the program levels and budget authority for each of the agencies; that is, the level of travel was modified, whenever appropriate, to conform with the revised program levels. Because those travel modifications were incorporated in the overall program revisions, no separate tally was made of either the travel reductions or the appeals. Subsequent to the review process three appeals have been made and adjustments have been made in each instance. The documented appeals are as follows:

Agency	Amount	Disposition
Department of Transportation	+$400,000	Granted.
Nuclear Regulatory Commission	+455,000	Granted.
Department of Housing and Urban Development	+236,000	Granted.

TRANSFER OF NIOSH TO ATLANTA

Chairman HATFIELD. I have other questions, but I will defer to my colleague at this time and submit these questions in writing.

Senator PROXMIRE. This morning's Post had the following article. I would like to read it because it is a short one and it seems to cite a devastating example of inefficiency and waste.

When the Reagan administration settled on Dr. J. Donald Millar as the new director of the National Institute for Occupational Safety and Health, it found itself with one small problem. Millar, the director of the environmental health center at the Center for Disease Control in Atlanta, didn't want to come to Washington.

No problem, the budget-conscious administration decided. NIOSH will move to Millar. The Department of Health and Human Services announced yesterday that 107 of NIOSH's 157 positions will move to Atlanta "as soon as it is practical." The 50 folks in the Division of Criteria Documentation and Standards Development will go to Cincinnati to join the Division of Technical Services. The cost of the moves is estimated at nearly $2 million.

That expenditure seems to me to be shameful, if the charge is correct. What is your comment?

Mr. HARPER. I am unfamiliar with that specific situation. I do know that over the years there has been some general concern about over-concentration of personnel in Washington, D.C. But I would have to look into that specific situation. I am not familiar with it.

Senator PROXMIRE. Would you look into it?

Chairman HATFIELD. Could you check into that and respond to the Senator?

Mr. HARPER. I would be happy to.

[The information follows:]

TRANSFER OF NIOSH TO ATLANTA

With regard to Senator Proxmire's specific questions regarding the costs and purpose of the proposed move, Secretary Schweiker's decision to relocate the NIOSH headquarters from the Washington area to Atlanta and the Division of Criteria Documentation and Standards Development to Cincinnati was made on programmatic grounds.

At present, nearly 60 percent of NIOSH positions are in Cincinnati; nearly 25 percent are in Morgantown and less than 18 percent in Rockville. The NIOSH functions

which were the subject of Senator Proxmire's questions were those in Rockville. It was these functions, and these functions alone, that were proposed for transfer. The great majority of NIOSH positions would remain exactly where they are. In particular, HHS has concluded that consolidating NIOSH headquarters staff with CDC will strengthen surveillance and other epidemiologic efforts aimed at protecting the Nation's workforce.

LONG TERM SAVINGS

HHS estimates that despite the initial/one time cost of the NIOSH headquarters transfer, long-term cost savings would be achieved. Through the elimination of duplicative functions now performed separately by management, administrative, and technical staff in Atlanta and Rockville, by consolidating the staff of the Division of Criteria Documentation and Standards Development, and by streamlining the conduct of administrative functions, HHS estimates savings of $1.5 million annually in the performance of these headquarters functions.

SHORT TERM COSTS

HHS estimates that it would cost less than $1.8 million to transfer all employees and their personal belongings, move office furniture and equipment, and provide transition period travel. If it is assumed that only half the employees would make the move, the estimated cost would be less than $1.15 million after adjusting for factors such as severance pay and unemployment compensation costs.

CURRENT STATUS

Since the June 24, 1981 hearing, both the House-passed and Senate committee-reported 1982 Labor-HHS appropriations bill have included language that prohibits the use of 1982 appropriated funds to move NIOSH headquarters staff from Rockville, Md., to Atlanta, Ga., or Cincinnati, Ohio. The question of future proposals regarding NIOSH are under study by the Department of Health and Human Services.

Senator PROXMIRE. How soon can you get that information for me? I wish I could have heard about this before the Post did.

Mr. HARPER. We will check into it promptly. I don't know if today or tomorrow, but very quickly.

Senator PROXMIRE. Talk about moving the mountain to Mohammed! Only the Federal Government would try to do that.

INCREASE IN TRAVEL COSTS

OMB's January object class analysis indicated that the costs of travel and transportation of persons would increase from $3.19 billion in 1980 to $4.7 billion in 1982. This would be a jump of almost 50 percent in Federal travel costs in 2 short years.

Do you still hold to these figures? And, if so, why are travel costs increasing so sharply?

On page 6 of your prepared statement, you said that the administration was reducing travel costs by $78 million, yet OMB has projected a colossal increase in travel costs—from $3 billion to $4.7 billion in 2 years.

Mr. HARPER. Yes. The reductions referred to in the February Reagan budgets were reductions from the budget proposed by the Carter administration. Unfortunately, inflation travel cost is up substantially and this is approximately what is being experienced in the private sector.

Senator PROXMIRE. You anticipate a 50-percent increase in 2 years? I have not seen any inflation estimate that comes anywhere near that.

Mr. HARPER. All I can say about the specific budget reduction figure, is that it is a figure reduced from the Carter administration.

Senator PROXMIRE. I realize that. The cut which you made would result in a $4.6 billion travel budget instead of a $4.7 billion budget.

INCREASED ALLOCATION FOR TRAVEL TO COVER INFLATION

Mr. HARPER. A 15-percent increase in the travel area is about what I experienced in the private sector during the last year on an annual basis.

Senator PROXMIRE. Fifteen percent per year?

Mr. HARPER. Yes.

Senator PROXMIRE. Even under that assumption the increases projected by OMB would provide a real increase after inflation of 20 percent over 2 years.

Chairman HATFIELD. Would the Senator yield at that point?

Senator PROXMIRE. Yes.

Chairman HATFIELD. I think it is very interesting, Mr. Harper, that we all recognize the role of inflation, but as one who travels from one end of the continent to the other to return to the constituency, I will say for the record, we have not had any adjustment made in our travel balance for a number of years. We had to accommodate the tremendous increases in air fares, inflation, all the other factors that have created this increase, but we have retained the same level of allocation for travel for the Members of Congress and we have had to make those adjustments. They are difficult adjustments to make, but it seems to me that the travel certainly has not been in anyway inhibited by the executive branch of Government. Now, the Senator from Wisconsin will know when we had the last adjustment, but it seems to me it has been at least 4 or 5 years.

Senator PROXMIRE. It is painful if you have a long distance to travel. I, fortunately, am not as affected because Wisconsin is closer to Washington than Oregon.

TRAVEL COMPLIANCE WITH OMB GUIDELINES

In circulars A–78 and A–120 as well as in a number of bulletins issued since 1976, OMB has promulgated a wide variety of guidelines to correct travel fraud and waste. Yet, in the face of these guidelines GAO has time and again found widespread abuses and agency noncompliance.

In a March 1977 report on travel by the Departments of State, Transportation, and HEW, the GAO found that 15 percent of the trips examined did not comply with OMB guidelines.

In December 1980, GAO reported that while OMB had directed agencies to limit attendance at conferences, the Forest Service had increased conference travel by over 50 percent and GSA was paying for extensive conference travel.

In May 1981, the GAO reported to Senator Percy that three-fourths of the first-class trips it had surveyed had been made without the required justification.

How could such abuses occur? And what new enforcement of its existing directives has OMB undertaken?

Mr. HARPER. The Office of Management and Budget attempts to refine its directives and find any levers to encourage the agencies to follow those guidelines. One major step taken to do this was an interagency travel project, the results of which will be available in its totality very shortly. This project has a number of specific recommendations for improving the management of travel in the Federal Government and we think that this should be a significant step forward as opposed to the more or less treading water that seems to be the case in the last few years.

RECOMMENDATIONS IMPROVING IMPLEMENTATION OF DIRECTIVES

Senator PROXMIRE. What would there be in those new recommendations that will make implementation more effective than past directives? What concrete steps do you plan to take to ensure agency cooperation? What sanctions and disciplines are available?

Mr. HARPER. I think that the fundamental and most important sanction or problem that we are all facing in the executive branch is the need to reduce expenditures, and this puts an overall pressure on travel and many other things. My associate, Mr. Steinberg, will be glad to mention a few of the specific recommendations for changes in procedures if you would like at this time.

Mr. STEINBERG. One of the problems you also have in trying to monitor something like a travel reduction is that you can request reduced travel cost, you can make opportunity to reduce travel costs available and unless you have some method of monitoring that, knowing what the people actually spend on the travel, you just don't know whether you capture them and probably you don't capture them.

One of the major things we will be doing as we try to implement the results of the travel management project is to develop the information systems within the agencies so that comparisons can be made of the managers to what they did spend on travel versus what they could have spent on travel if they didn't pay attention to trying to get travel economies.

I think that probably more than anything will enable management to focus on the amount spent on travel by the employees underneath them.

REPORTS ON TRAVEL MANAGEMENT PROJECT

Senator PROXMIRE. Will you be giving us information on a monthly or quarterly basis as to your success?

Mr. STEINBERG. The GAO will be one of the prime participants in the travel management project.

Senator PROXMIRE. Will the GAO be making regular reports?

Mr. Steinberg. That would be up to them, if you direct them. One of the major actors, if you will, in the travel management process here in the Government is the GAO and the rules, regulations, and policies that they provide.

Senator PROXMIRE. From 1961 to 1980 GAO has issued at least 11 separate reports finding that Federal agencies have been employing outside consultants for work that could and should more properly have been done by regular Government employees. In its most recent survey, GAO was skeptical of the need to go outside the agency in 80 percent of the contracts surveyed. GAO cites a number of examples, including:

GAO SKEPTICISM IN USING OUTSIDE CONTRACTS

One, a $71,000 Office of Education contract to develop a system to analyze critical issues in postsecondary education. The results of the study were judged to be of such poor quality that the work had to be done over—this time by in-house staff.

Two, a HUD award of $25,000 to design an evaluation of a specified program's activities in nonmetropolitan areas. The procurement request justified contracting out on the basis that "in-house manpower and technical expertise is not available." The work described was subsequently performed by in-house staff, while the contractor did other work.

Three, a Department of Labor 1977 internal memo identifying 17 separate contracts valued at $1.25 million which could have been performed in-house.

How can the Congress and the executive branch work together to prevent such absues?

Mr. HARPER. I think there are several things that can be done: one of which is that we have been tasked in our Office of Federal Procurement Policy with coming up with a total revamping of the entire procurement system in Government to provide a comprehensive unified procurement system. The due date on that system is October 1981, and I am assured by the director of that office that we will be able to meet that date.

I think another is a real enforcement of circular A–76 which requires a careful examination of cost of doing any particular job within Government or using outside resources. Candidly, over the years some agencies have resisted emplementing that circular. With the change in administration, we have assurances from the leadership of some of the agencies who have been most reluctant to participate in that progress that they and their agencies will participate and make these types of cost analysis.

I think the third thing, frankly, we find from time to time that for noneconomic reasons Members of the Congress feel that a decision should be in-house or out of house for noneconomic reasons which we find difficult to evaluate.

COMPLETE CUTOFF OF TRAVEL FUNDS

Senator PROXMIRE. Would you say that one management tool could be simply cutting funds available for travel or consultant services?

Mr. HARPER. Right.

Senator PROXMIRE. I hope you give serious consideration to that approach. It is probably the most effective thing we can do. I realize that creates some problems and that you may not get some of the services

you would like to get, but it seems to me it is then up to the manager of the agency to set his consulting priorities and to use his ingenuity to function much more effectively.

Chairman HATFIELD. Senator DeConcini.

TARGETING TRAVEL REDUCTIONS

Senator DECONCINI. Let me ask one question here on travel. When there have been the imposition of some cutback on travel, it seems that you probably hear, Don't cut it back we are delivering essential services. A study by OMB and yourselves and GSA indicates that a 6.16 percent of all Federal travel is for attendance of conferences. That comes to somewhere in the neighborhood of $240 million.

I wonder if it is possible in your efforts to reduce travel and what advice you can give us if we can target these reductions, such as reducing Federal employees' attendance at conferences by half? That would be a 3-percent savings on all our Federal travel and thereby not affecting the area of, say, veterans health care travel or Indian health care travel or law enforcement or other vital efforts that nobody really wants to attempt to reduce.

Is that part of your thinking process or can you give us some advice on ways to achieve that as we move toward these cuts ourselves.

Mr. HARPER. I think that has got to be a vital concern as to the purpose of the trip. This is, frankly, the thing that shocks me a little bit, that the Government has operated all these years and in many cases they give these blanket authorizations, where it seems like anybody in the agency can travel for virtually any purpose. And, frankly, in all of the private sector companies I have been in, there is a very strict requirement that any time you take a trip you have to state the purpose of that trip in very clear terms and that kind of thing is audited.

FOREST SERVICE USE OF TRAVEL

Senator DECONCINI. The GAO's December 1980 report tells that despite OMB's congressional efforts to control these costs, the Forest Service—and I pick them as one example—has increased by more than 50 percent the number of external national conferences its employees can attend and continues to send multiple groups of bureaucrats to these conferences. And then it goes on that 76 Forest Service employees were authorized to participate in Association of Government Accounting conferences, 111 attended a Forest Product Research Society meeting and 79 attended a conference on the Entomology Society of America.

These are things that I don't know how we in Congress can get you or if you can say, Hey you can't do that, you can't send multiple people to these things. And maybe we have to cut out all conference travel. Even that might be unwise, but it seems if we don't get to that period, we are jeopardizing touching some vital areas like law enforcement or health care.

Mr. HARPER. I wouldn't pretend to try to justify why a particular number of Forest Service employees attend a particular conference. I

think the thing that we must do and that in fact the new Cabinet secretaries are tuned to is to sensitize their management to these kinds of waste that must be eliminated, that we can't be sending multiple people to conferences.

Just the other day a fellow called me and said: We've got people from six different agencies that want to get together and it is almost impossible to get a place in Washington where we can have a 2-day conference." Really, I get into this, or, "How would it be if we traveled 100 miles to some motel or something for a conference center?" And it was my recommendation that they definitely not do it because, I said, we are in a period of constraint right now and that every single element of this Government has got to be sensitive to that effort, whether it is OMB, GAO, the Congress or anybody else. We all need to set an example to the American taxpayer that we are doing something about it.

TRAVEL TO CONFERENCE REDUCED BY HALF

Senator DECONCINI. I applaud you. It is hard to believe they couldn't find some place here to meet, even outside their offices. I think that is a hallmark of your leadership there.

What concerns me is how do you get that translated into other agencies to do it? Can we rely on the secretaries and say, by God, we are going to get sensitive about these issues now? It seems to me it is going to take some executive order that travel to conference is going to be cut in half, some arbitrary amount, to bring that sensitivity to the agencies.

I wonder what your response to that is.

Mr. HARPER. I think that we need to followup on some of the decisions that the President made earlier this year to make sure those travel savings are being realized. Unfortunately, we don't have all the data systems to allow us at any point in time to tap into the system and say what is happening this month with respect to travel. But, this issue of waste and fraud in Government has been a high priority of the President. In fact, we spent 45 minutes at the Cabinet meeting before last on the kind of things we are working on in this area. At that time he directed that in another Cabinet meeting in the not too distant future we give him an update on that program. And I would be happy to include this as one of the items in my presentation. This is something they need to focus attention on.

Senator DECONCINI. What concerns me, as we move into these particular problems and if continued abuses arise, then Congress reacts and often over-reacts and we end up chopping travel for the FBI undercover activities and we end up hurting the society that we want to try to save the money for.

CONSULTANT CONTRACTS

Let me turn to one question on the consultant contracts. I have been led by studies that have come out whether or not they are used once they are completed. For example, on page 12 of the March 10, 1980 GAO report on consulting service contracts, they tell of a Department of Energy grant for $344,000 for a comprehensive analysis of issues re-

garding resource development on Indian reservations for which program officials could not specifically explain or document any use made of the study. In another case, the consultant's final product not being used by the Department of Transportation which paid $150,000 for an analysis of the economic impact of proposed regulation which was to be made available for the public's use during hearings on the proposed regulation. The project was not completed until after the hearing, thus made it useless. Yet, the contractor got his money and was not penalized in any way. According to my colleague, Senator Pryor, who verified some of this in the joint hearing before the Subcommittee on Civil Service on Federal consultant contracts, there is no case on record of penalties being assessed for late delivery of contract items, nor have any cases resulted in suspension or disbarment of consultant firms that have wasted the taxpayers' money in this form.

And I wonder if your office has given some thought or some guidelines, some way of enforcement, that there would be a penalty to the agency that would go ahead and authorize payment of a late contract, and if you can give us any examples of cases where penalties have been assessed for late contract or not delivered?

Mr. HARPER. I think certainly a penalty is appropriate when the contractor had a deadline and failed to meet the deadline. In the private sector we stipulate those kind of penalties. When we assess a penalty against a Government agency, we are assessing a penalty against the taxpayer and the penalty ought to be assessed against the consultant who didn't do his job right.

Senator DECONCINI. The penalty ought to be assessed against the individual responsible in some kind of disciplinary action?

Mr. HARPER. I agree with that. It ought to be in their performance appraisal.

LATE OR INCOMPLETE CONTRACTS

Senator DECONCINI. Do you see any way of getting a handle on that particular job of finding out how many of these contracts for consultants indeed are late or not complete or never delivered? Is there any way that you feel that your agency can assess that?

Mr. HARPER. Well, we are developing some control models which are essentially systematic approaches to identifying how these decisions are being made, where the key points are and how you can control the various decision points in that. It would be possible for us to do a retrospective study on what has been done in the past. If I may suggest, that might be a more appropriate role for the GAO than for us. We run a fairly lean operation and I think rather than focusing too much on what has been done in the past in this particular area, we need to focus on how to make sure that our new procurement system that we are going to be proposing to Congress takes care of this kind of problem that you brought up here on late penalties.

I know from private sector experience, it is a very frustrating thing and the only thing you can do is assess a penalty against the contractor who has failed.

Senator DECONCINI. Mr. Harper, I have a number of questions, but due to the time restraint I will submit them to you and I thank you for being here today and for your obvious awareness that this is a serious problem that we can't ignore and hope that the administration can really play some hard ball with the agencies and the Cabinet people to insist on.

I find we are really frustrated here because when we act sometimes it doesn't get implemented in the way that I would like to see it, and that is up to some administrators to attempt to continue the nuts and bolts travel for consultants that are really necessary and do away with the administrative travel.

It seems to me a lot of that is in Washington, D.C., in the regional offices, and I would recommend to you, sir, that in your deliberations that you attempt to find a formula to reduce that travel.

Thank you.

Chairman HATFIELD. Thank you, Senator.

Thank you, Mr. Harper, for your presence here today.

GENERAL SERVICES ADMINISTRATION

STATEMENT OF ALLAN BERES, COMMISSIONER, TRANSPORTATION AND PUBLIC UTILITIES SERVICE, GENERAL SERVICES ADMINISTRATION

ACCOMPANIED BY:
IVAN MICHAEL SCHAEFFER, ASSISTANT COMMISSIONER FOR TRANSPORTATION AND TRAVEL MANAGEMENT
ALBERT VICCHIOLLA, ASSISTANT GENERAL COUNSEL

INTRODUCTION OF ASSOCIATES

Chairman HATFIELD. We are happy to welcome Mr. Allan Beres, Commissioner of the Transportation and Public Utilities Service Division of the GSA and his colleagues. We have your full statement which will be placed in the record. I hope you are getting as hungry as I am because then you will summarize very quickly your statement and then we will proceed with the questions.

Mr. BERES. I have with me Mr. Schaeffer, Assistant Commissioner for Transportation and Travel Management, and Mr. Albert Vicchiolla, Assistant General Counsel. I think we should concentrate at this particular time on the results we have found from OMB's Federal interagency travel management, improvement project and the results of our first two reports that we have submitted to Congress, fiscal years 1979 and 1980. There is one more report due that will cover fiscal year 1981 data.

TRAVEL MANAGEMENT

Three areas of concern that have come out of all these investigations and examinations are that Federal travel management needs to be strengthened, redesign in the travel reimbursement area, and the need for greater emphasis in the travel arrangement area.

The fundamental deficiency in handling travel by agencies is found in the overall lack of travel management. Some agencies lack clearly defined travel management organizations. And those that have them have varying degrees of effectiveness and efficiencies. What we need is a mechanism that will activate a Government-wide network of agency officials who can participate in developing overall travel policies and serve as agency contact points for travel matters.

Travel management begins with the creation of a sound travel management policy. By this I mean that there can be no travel management in the Federal Government without a clear enunciation of the policies and principles under which travel is to be conducted.

TRAVEL REIMBURSEMENT

In the travel reimbursement area, our studies and those of OMB and those of the interagency travel management improvement project have determined that one of the greatest shortcomings is the expense associated with the administration of travel. We expect that one of the recommendations of the project is, as a short term corrective action, that the heads of departments and agencies modify their procedures regarding travel advances.

In the same area, one of the major burdens faced by Federal agencies relates to processing travel vouchers upon completion of the trip. The dollars spent on postaudit of travel vouchers for verification of entitlements and allowances claims greatly adds to the overall cost of Federal travel. The General Accounting Office, in its January report entitled "Increased Productivity in Processing Travel Claims Can Cut Administrative Costs Significantly," found that the current per diem methodology places a significant burden on both employees and agencies in filling out travel vouchers and making reimbursement for Federal travel.

GAO has recommended certain changes in the method of computing subsistence reimbursement which would place all Government travel on what is known as lodgings-plus basis for reimbursement. Under this methodology, an employee would be allowed the cost of lodgings, subject to fixed maximums, for a given locality and an additional fixed sum for meals and miscellaneous expenses. We are in general accord with GAO's approach and we intend to take their recommendation one step further by seeking implementation of a flat rate locality based per diem system.

Essentially, this system would provide for expense reimbursement based on a flat rate for each day or fraction of a day that an employee is in a given city.

TRAVEL INITIATIVES

The third area is travel services. GSA has a dual responsibility in that it must set a policy insuring that the Government travel programs operate as efficiently as possible while assuming Federal employees are treated fairly in terms of reimbursement.

Under authority granted by the Federal Property and Administrative Services Act of 1949, GSA has continued working to control and reduce the cost of Federal travel. We have initiated actions designed to assure that travel is accomplished by the most economical means as part of the total program that will eventually provide professional and cost-effective management of Government travel.

The first of these initiatives was to secure an agreement with Amtrak to provide a 20-percent discount on rail passenger fares for official travel on Metroliner coach service between Washington, D.C., and New York, N.Y. These efforts have resulted in a net savings of over $1 million. We anticipate that additional agreements with Amtrak will extend travel into markets beyond the Northeast corridor in the near future.

On May 5, 1980, GSA launched its contract air fare program, designed to provide discount air fares to travelers on official Government business. Under terms of the contract, use of contract airlines between the city pairs is mandatory upon the Government, with only certain limited exceptions. Our initial contracts, awarded over 1 year ago, provided for airline service by four carriers between 11 city pairs. These first contracts provided air service at reduced rates ranging from 35 percent to 69 percent of the airline standard industry fare level. The first city pair contracts proved to be highly successful. Nearly 47,000 Government travelers used the first contracts for an actual savings of $5.4 million in Government travel funds.

A second solicitation resulted in awards of contracts in December 1980, to 10 airlines for scheduled jet coach service at reduced fares between 47 city pairs for the period January 2 to June 30, 1981. On February 20, 1981, negotiations resulted in awards for an additional 11 city pairs and 1 additional airline carrier was added for the period March 1 to June 30, 1981. Based on projected use by the Government and the differences between the current "Y" class airline fares and contract fares, we are anticipating a savings of $12 to $14 million in travel funds during the life of the second set of contracts.

The third solicitation was issued in April 1981. These contracts are intended to supplement our existing agreements and greatly expand the number of city pairs under contract. We have also issued a fourth solicitation, which will close on July 1, for an additional 55 city pairs. We hope to award these contracts by August. We are anticipating that this final round of contracts will lead to awards to approximately 20 air carriers covering approximately 150 city pairs. A projected annual savings in excess of $35 million is expected. We are proud of these achievements, which are indicative of the progress GSA has made in improving its operations and its support to the Federal establishment.

TRAVEL DIRECTORY

One way to better manage travel is to keep travelers better informed. In order to do this we have undertaken to publish a monthly Federal Contract Air Service and Travel Directory. GSA has contracted with Official Airline Guides, Inc., to produce a service and information directory covering each of the city pairs for which we have contracts. The directory is a joint project with the Military Traffic Management Command of the Department of Defense. It contains ground transportation information, airline schedules, GSA motor pool information and hotel/motel discount information.

It was almost 1 year ago when one of our regional offices initiated a pilot project in its respective areas to obtain discounts from hotels and motels on contract with discount lodgings for Federal travelers on official business. These undertakings proved to be highly successful, so much so that we have determined that the program should be national in scope. We will produce our first nationwide Federal Hotel/Motel Discount Directory later this summer. This directory will contain a listing of over 1,200 lodging establishments located in all 50 States, the District of Columbia, and Puerto Rico.

TRAVEL OFFICES

We are examining additional mechanisms for obtaining discounts for the Federal Government, including undertaking a thorough examination of the methods used by the Government to procure travel services. For many years the Federal Government has been precluded from using commercial travel agents for the procurement of official travel services. This prohibition, based upon a regulation promulgated by the GAO, has been in effect for even longer. GAO, however, has recently taken another look at its policy and regulations and has begun granting, on an experimental basis, permission for a number of Federal agencies to test the use of travel agents. GSA has recently requested authority from the Comptroller General to engage in a broad-based experiment with the use of travel agents in each of our 11 regions. We hope that, through the travel agent mechanism, we will be able to achieve even broader and more effective usage of our airline contracts, resulting in greater savings to the Federal Government as well as a better method of delivering travel services.

With the cooperation of the Air Transport Association of America, GSA is improving and enhancing existing scheduled airline ticket offices, better known as SATO's as a method of delivering travel services to a multiagency clientele. Additionally, certain of our regional offices are operating a limited number of Government-operated ticket offices. An analysis of each of these operations will enable us to determine which mechanism or mechanisms are best suited for procuring travel services for the Federal Government at the greatest savings of tax dollars.

SUMMARY

Our future oversight programs will also be focusing on travel expenditures in a much more concentrated manner than we have in the past. The key here, however, is for each of the Federal agencies to realize that travel management is a serious business.

In summary, the Federal Government is currently spending in excess of $3 billion annually on travel by its employees. The perception that Federal employees become rich while on travel status, while widely held, is clearly erroneous. There are obviously many things that we can do to correct what are perceived to be abuses and obviously tighten the management of travel within the Federal Government. The first of those is a need to more effectively manage Government-wide approaches to travel. Management has to be concerned.

The second of those is to correct the general lack of control over travel arrangements resulting in a failure to take advantage of significant opportunities for travel cost savings which are offered.

Third, out-of-date, complicated reimbursements result in high administrative costs with little benefit to either Government or its travelers. We are correcting this shortcoming by revising the Federal travel regulations.

Thank you very much, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF ALLAN W. BERES

COMMISSIONER, TRANSPORTATION AND PUBLIC UTILITIES SERVICE

GENERAL SERVICES ADMINISTRATION

Mr. Chairman, I am Allan Beres, Commissioner of the Transportation and Public Utilities Service of the General Services Administration. Accompanying me are Mr. Ivan Michael Schaeffer, Assistant Commissioner for Transportation and Travel Management, and Mr. Albert Vicchiolla, our Assistant General Counsel. On behalf of the Administrator of General Services, Gerald P. Carmen, I want to express my appreciation for the opportunity to offer testimony today on the subject of Federal transportation and travel management improvement.

This morning I would like to provide you with an overview of our responsibilities relative to Federal travel and discuss GSA's actions relative to the steps we have taken to assure that travel undertaken by Federal employees is warranted, discuss what we at GSA have done to reduce travel costs by effective travel management practices, and our recommendations for additional initiatives which are required to further reduce the Government's travel costs.

GSA's Role in Travel Management

GSA has a diverse range of responsibilities bearing on official travel by Federal employees. The most familiar of these is probably our role as the office that issues the Federal Travel Regulations, which prescribe travel and relocation allowances for civilian employees. These regulations provide the broad framework governing all civilian federal travel. We also conduct, pursuant to the Travel Expense Amendments Act of 1975 (Public Law 94-22), periodic investigations of the cost of travel and the operation of privately owned vehicles to employees while engaged on official business.

The results of these investigations, which are conducted in consultation with the Comptroller General of United States, the Secretaries of Defense and Transportation, and representatives of Government employee organizations, are reported to the Congress. Our most recent report to the Congress was dated September 26, 1980. GSA also has another requirement for reporting travel data to Congress, and I will address this later in my testimony.

Under authority granted by the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 481), GSA has continued working to control and reduce the cost of Federal travel. Other GSA functions related to Federal travel include the centralized audit of freight and passenger transportation vouchers paid by the Government, the establishment of uniform procedures governing the procurement of passenger transportation services, contracting for passenger transportation services on behalf of the civilian agencies, and transportation and traffic management programs covering teleticketing, Scheduled Airline Ticket Offices, centralized household goods shipping, and similar matters. We have initiated actions designed to assure that travel is accomplished by the most economical means as part of a total program that will provide professional and cost effective management of Government travel.

Travel in the Federal Government

The Federal government currently spends in excess of $3 billion annually on travel by its employees. For many years there has been a widely held perception that Federal employee travel is wasteful, inefficient, plagued by fraud and abuse, and is a benefit of Federal employment. The usual example is that of high-level Washington officials who are flying to exotic spots for such

activities as meetings and conferences only remotely related to their job functions. I would like to say that our experience tells us that this preception is wrong. To put matters in proper perspective, the bulk of travel is by thousands of Federal employees visiting the cities where we work and live to conduct inspections of corporate books and records, to engage in health and safety activities, to inspect the quality of food which we eat, to conduct inspections of our nation's coal mines, to examine the nation's banks to ensure their financial integrity, and to perform the many other similiar activities which are vital to the day-to-day operations of the Federal government. Such travel could hardly be termed glamorous.

Both the Office of Management and Budget and the Congress have frequently tried to eliminate waste, fraud, and abuse in the travel area simply by reducing travel funds. In 1980, Congress mandated a $500 million reduction in all Federal travel. These actions forced Federal managers to focus more closely on how travel dollars were being expended. Federal travel for many years has obviously lacked systematic government management. We recognize that across-the-board budget cuts are a direct and effective control mechanism. However, they sometimes have unintended effects. For example, one of the drawbacks of the FY 1980 cut was that it affected two major budget categories involving expenditures on items ranging from subsistence allowances to parcel post shipments. The agencies returned scores of vehicles to the GSA motor pools as a result, because the cost of leasing these vehicles was considered a travel cost. While agencies were returning cars to the motor pools, they were in some cases simultaneously purchasing vehicles on the open market since vehicle purchases did not count as travel costs. These serious cuts have had a profound impact on such programs as law enforcement, military training, and safety inspections of factories and mines.

GSA believes that an improved travel management program can be as effective as budget cuts since it is through the most careful management of Federal travel that abuses can be best addressed and that travel funds are used to carry out the agencies' missions in the most effective manner. We should keep in mind that travel is a mechanism for supporting programs which are essential to the operation of the government. Travel is nothing more than a component of these programs and, if soundly managed, should enhance Government efficiency and productivity and provide a return on investment far in excess of the cost of travel and per diem expenses. It is in this light that an improved travel management program, in concert with the 15-percent reduction in FY 1981 Federal travel ordered by President Reagan, is the optimum approach to this matter. The President's action is indicative of the Administrator's concern over excess travel in Federal agencies and its willingness to take immediate corrective action when reductions in expenditures are possible.

As result of Public Law 96-346, approved on September 10, 1980, the Administrator of General Services is required to collect certain information regarding the travel of those agencies which spend in excess of $5 million a year on the transportation of people. This statute also requires the submission of reports to Congress identifying the general causes and purposes of travel, certain cost data, and inefficient travel practices. The statute requires that the Administrator provide the Congress with three reports: the first, covering Fiscal Year 1979, was submitted on January 30, 1981, the second, covering travel for FY 1980, was submitted on June 2, 1981. The third report, analyzing FY 1981 travel, is scheduled to be submitted to the Congress on June 1, 1982. The first report was based on data obtained by the Interagency Travel Management Improvement Project. GSA based its FY 1980 report on data collected through questionnaires to agencies as well as a voucher sampling conducted in cooperation with the 25 reporting agencies. In addition, each agency was requested to answer travel management questionnaires for both Fiscal Years 1979 and 1980. These questionnaires centered on the practices engaged in by each respondent agency in managing Federal travel. For the Committee's convenience we are attaching to this testimony copies of our 1979 and 1980 reports. We found that the three general areas of concern involving federal travel are (1) travel management, (2) travel reimbursements, and (3) travel arrangements.

Travel Management

The fundamental deficiency in handling travel by agencies is found in the overall lack of travel management. We stated in both the Fiscal Year 1979 report and again in the Fiscal Year 1980 report that some agencies lack clearly defined travel management organizations. Most agencies do have travel management organizations, however, they vary widely in level of effectiveness and efficiency. We still see a need for a mechanism which would activate a government-wide network of agency officials who can participate in developing overall travel policies and serve as agency contact points for travel matters. We are aware that this overall deficiency was an area of particular concern to the Interagency Travel Management Improvement Project and we recognize that any efforts toward implementation of its recommendations probably will begin with work aimed at curing this fundamental problem.

It is important to note that travel management means more than buying airline tickets and sending an employee on a trip. Travel management begins with creation of a sound travel management policy. By this, I mean that there can be no travel management in the Federal government without a clear enunciation of the policies and principles under which travel is to be conducted. This ranges from such issues as use of coach seats and discount fares to the method by which we compute per diem allowances and the manner in which agencies reimburse their employees for Federal travel. In the past much of this has been done on a helter-skelter basis with agencies failing to fully implement regulations enacted by the Administrator of General Services and, frankly, by the failure of GSA to carefully police agencies' actions through an effective and aggressive oversight program. I will address GSA's actions to correct these shortcomings later.

It is essential, that Federal agencies have input to travel management policies during developmental stages rather than being faced with a fait accompli in the form of a publication in the Federal Register. We have attempted through our Interagency Travel Management Committee to bring proposed changes of regulations to the early attention of responsible agency officials in order for them to have a meaningful input prior to regulations being implemented.

It is of increasing importance that agencies begin to look at travel through a single, coherent approach rather than the fragmented approach currently found in many Federal agencies. Our studies have revealed that some agencies fail to approach travel in this manner. For example, some separate bureaus, offices and divisions of large departments and agencies have their own individual, in effect proprietary, interpretation of what Federal travel management policies are. GSA is confronting this and other important travel issues. It has been long acknowleged within GSA, even prior to the work of the Interagency Travel Management Improvement Project, that a new methodology is essential for determining travel entitlements. Because of this, members of our staff have been working for the past year at preparatory efforts to revamp the Federal Travel Regulations. This is an undertaking which we hope to complete during the course of FY 1982. We are also undertaking careful evaluations of our methodology in computing travel subsistence reimbursement in High Rate Geographical Areas, and reimbursement for use of privately owned vehicles. We at GSA are dedicated to assuring that the Federal travel budget will go as far as it possibly can in providing for essential and mandated travel to perform agency missions and functions. We want to be certain that our regulations and methodologies do not act contrary to these intentions.

Travel Reimbursement

Our studies, and those of the Interagency Travel Management Improvement Project, have determined that one of the greatest shortcomings in Federal travel is the expense associated with the administration of travel.

We reported for 1979 that the Interagency Travel Management Improvement Project had found that the administration and control of travel advance monies needed improvement essentially across the board in the Federal Government. In 1980 we determined that there is still a definite need to establish controls which would substantially reduce the percentage of travel advance funds which are outstanding in excess of 60 days. With the exception of travel money which is advanced to

employees on a continuing or permanent basis because the employee is in an almost constant travel status, travel advances should be settled through the filing of a travel voucher promptly upon completion of each trip or at least every 30 days. While we did recognize some improvement between 1979 and 1980 in individual agencies, this is still a significant problem area for the Federal government. We expect the Interagency Travel Management Improvement Project to recommend, as a short-term corrective action, that the heads of departments and agencies modify their procedures regarding travel advances to (1) review all permanent travel advances every 90 days and recall any issued to individuals who have not traveled during that 90-day period; (2) establish procedures to follow up with travelers who do not immediately refund excess travel advances issued on a trip-by-trip basis; and (3) establish procedures to recover excess travel advances from employee's salaries no later than 60 days after the issuance of the advance or completion of the trip.

One of the major burdens faced by Federal agencies relates to processing travel vouchers upon completion of the trip. The dollars spent on post-audit of travel vouchers for verification of entitlements and allowances claimed greatly adds to the overall cost of Federal travel. The General Accounting Office, in a January 19, 1981, report entitled "Increased Productivity In Processing Travel Claims Can Cut Administrative Costs Significantly", found that the current per diem methodology places a significant burden on both employees and agencies in filling out travel vouchers and making reimbursement for Federal travel. GAO has recommended certain changes in the method of computing subsistence reimbursement which would place all Government travel on what is known as a lodgings-plus basis for reimbursement. Under this methodology, an employee would be allowed the cost of lodgings, subject to fixed maximums, for a given locality and then an additional fixed sum for meals and miscellaneous expenses. We are in general accord with GAO's approach and we intend to take their recommendation one step further by seeking implementation of a flat rate locality based per diem system. Essentially, this system would provide for expense reimbursement based on a flat rate for each day or fraction of a day that an employee is in a given city. The fixed rate would be based on the results of GSA's travel costs studies. For instance, if an employee was required to travel to Charlotte, North Carolina, and our studies determined that the cost of one day's lodgings and subsistence was $52.00, the employee would automatically be entitled to $52.00 for his/her day's travel without actually accounting for individual factors of the overall expense. We fully recognize that in this system of reimbursement there will be individual cases of both over-reimbursement and under-reimbursement; however, any deficiencies in this area will be far more than offset by the vastly improved administrative efficiency of such a flat rate system. A greatly simplified form of trip vouchering could be incorporated into the system and would result in significant savings in the administration of Federal travel, while still providing employees with an essentially equitable basis for reimbursement.

Travel Services

GSA has a dual responsibility in that it must set a policy insuring that the Government travel programs operate as efficiently as possible while still assuring that Federal employees are treated fairly in terms of the reimbursement they receive for expenses incurred on behalf of the Government. Nowhere is this divergence of responsibility seen more clearly than in the area of travel services. In the policy area, we have mandated that employees who use commercial air carriers on official business must do so by using less-than-first-class accommodations. Only very limited exceptions to this policy may be permitted under GSA's travel regulations. There has long persisted, however, a perception that habitual use of first-class accommodations by official Government travelers constitutes an improper and inefficient travel practice which should be eliminated. Since 1979, GSA has been collecting data on the authorized use of first class accommodations. The agencies submit semi-annual reports to GSA, and includes data relative to the excess cost to the Government, based on the difference between first-class accommodations used and the next lower class below first class. From agency reports and the data that we have compiled, we have determined that the additional cost associated with use of first class accommodations does not appear to be significant nor does there appear to be excessive or improper authorization for such use.

As I mentioned earlier, under authority granted by the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 481), GSA has continued working to control and reduce the cost of Federal travel. We have initiated actions designed to assure that travel is accomplished by the most economical means as part of the total program that will eventually provide professional and cost-effective management of Government travel. The first of these initiatives was to secure an agreement with AMTRAK to provide a 20-percent discount on rail passenger fares for official travel on Metroliner Coach service between Washington, DC, and New York, New York. GSA and the Department of Defense agreed, in turn, to mandate the use of AMTRAK for official travel between these two cities. From July 1979 through June 1980, AMTRAK reported an increase in passengers of 35,461 directly attributable to increased Government use. Application of the 20-percent discount reduced the cost of rail travel between these cities by almost half a million dollars. The diversion of official travelers from air to rail service at a savings of $25 per trip resulted in an additional saving of almost $900,000. With full consideration that certain increases in per diem and possibly lost productive time resulted from the use of rail rather than air service, we estimate that the discount program resulted in a net savings of $1 million dollars in government travel costs. The first agreement with AMTRAK expired on December 31, 1980, and has been replaced by a new discount agreement which is expected to reduce travel costs to the Government by a half million dollars for the period April through October 1981. We anticipate that additional agreements with AMTRAK will extend travel into markets beyond the Northeast corridor in the near future.

On May 5, 1980, GSA launched its contract air fare program, designed to provide discount air fares to travelers on official Government business. Under terms of the contracts, use of the contract airline between the city-pairs is mandatory upon the Government, with only certain limited exceptions. Our initial contracts, awarded over a year ago, provided for airline service by four carriers between 11 city pairs. These first contracts provided air service at reduced rates ranging from 35 percent to 69 percent of the airline Standard Industry Fare Level. The first city pair contracts proved to be highly successful. Nearly 47,000 Government travelers used the first contracts for an actual savings of $5.4 million in government travel funds.

A second solicitation resulted in awards of contracts in December 1980, to ten airlines for scheduled jet coach service at reduced fares between 47 city pairs for the period January 2 to June 30, 1981. On February 20, 1981, negotiations resulted in awards for an additional 11 city pairs and one additional airline carrier was added for the period March 1 to June 30, 1981. Based on projected use by the Government and the differences between the current "Y" class airline fares and contract fares, we are anticipating a savings of $12 to $14 million in travel funds during the life of the second set of contracts. It should be noted that this estimated savings is equal to, or more than, each of the individual travel costs of 11 of the 26 agencies which spend in excess of $5 million for transportation of passengers. During the course of this contract we received requests from both the Senate and House of Representatives to include their Members, employees, and staffs in the airline contract program. We have succeeded in amending most of our contracts to accomplish this resulting in even further travel savings to the Government.

A third solicitation was issued in April 1981. These contracts are intended to supplement our existing agreements and greatly expand the number of city pairs under contract. We have also issued a fourth solicitation, which will close on July 1, for an additional 55 city pairs. We hope to award these contracts by August. We are anticipating that this final round of contracts will lead to awards to approximately 20 air carriers covering approximately 150 city pairs A projected annual savings in excess of $35 million is expected. We are proud of these achievements, which are indicative of the progress GSA has made in improving its operations and its support to the Federal establishment.

One way to better manage travel is to keep travelers better informed. In order to do this we have undertaken to publish a monthly Federal Contract Air Service and Travel Directory. GSA has contracted with Official Airline Guides, Inc., to produce a service and information directory covering each of the city pairs for which we have contracts. The directory is a joint project with the Military Traffic Management Command of the Department of Defense. The

directory contains ground transportation information, airline schedules, GSA motor pool information and hotel/motel discount information.

About a year ago, our regional offices in Atlanta and San Francisco solicited a number of hotels and motels in their respective geographic areas to obtain discounts on lodgings for Federal travelers on official business. These undertakings proved to be highly successful, so much so that we have determined that the program should be national in scope. We will produce our first nationwide Federal Hotel/Motel Discount Directory later this summer. This directory will contain a listing of over 1,200 lodging establishments located in all 50 States, the District of Columbia, and Puerto Rico. We anticipate that the use of the discounts offered by these establishments could save the Government an additional $12 to $15 million annually in travel expenses. This project and the directory, in addition to cutting Federal travel costs, serve a valuable purpose in providing Federal travelers with listings of establishments which will afford them the ability to travel without spending personal funds on Government trips. This directory will be updated semi-annually.

We are examining additional mechanisms for obtaining discounts for the Federal government, including undertaking a thorough examination of the methods used by the Government to procure travel services. For many years the Federal government has been precluded from using commercial travel agents for the procurement of official travel services. This prohibition, based upon a regulation promulgated by the General Accounting Office, has been in effect for even longer. GAO, however, has recently taken another look at its policy and regulations and has begun granting, on an experimental basis, permission for a number of Federal agencies to test the use of travel agents. In each of these experiments agencies have been given permission to competitively contract for travel agent services for a given department or facility. GSA has recently requested authority from the Comptroller General to engage in a broad-based experiment with the use of travel agents in each of our 11 regions. We hope that, through the travel agent mechanism, we will be able to achieve even broader and more effective usage of our airline contracts resulting in greater savings to the Federal government as well as a better method of delivering travel services.

With the cooperation of the Air Transport Association of America, GSA is improving and enhancing existing Scheduled Airline Ticket Offices, better known as SATO's, as a method of delivering travel services to a multiagency clientele. Additionally, certain of our regional offices are operating a limited number of Government operated ticket offices. An analysis of each of these operations will enable us to determine which mechanism or mechanisms are best suited for procuring travel services for the Federal government at the greatest savings of tax dollars.

Our future oversight programs will also be focusing on travel expenditures in a much more concentrated manner than we have in the past. The key here, however, is for each of the Federal agencies to realize that travel management is a serious business. Individual employees should not be allowed the latitude of determining the mechanism of securing services or choosing the air carrier by which they will travel. It has long been evident to us and of course to the Congress, GAO, and the Office of Management and Budget that travel must be administered in a much more thoughtful and careful way.

In order to do this, agencies must authorize only warranted travel and regularly monitor compliance with GSA travel and transportation regulations. This is an area in which agencies must be particularly mindful.

Recommendations to Improve Cost Effective Travel

Inherent in what I have said here today and based on the recommendations contained in the draft report of the Interagency Travel Management Improvement Project, there are recommendations in three major travel management areas which, if implemented aggressively, could lead to substantial savings of travel resources. They are as follows:

(1) There is a need to more effectively manage Government-wide approaches to travel. A recent GAO report on improving travel management points out that travel cost has continued to grow despite efforts at reduction. The same report questioned the effectiveness of previous efforts to reduce travel costs and to improve agency travel practices. It is clear that travel management must be taken more seriously by Government managers and executives. This is not an area in which we can afford to get by with lip service. This is an area, which like any other area of government, requires careful management.

(2) The general lack of control over travel arrangement results in a failure to take advantage of significant opportunities for travel cost savings. As the draft Interagency Travel Management Improvement Project Report points out, once a trip has been authorized, the specific airline, lodging, and other travel arrangements determine the cost of that trip. Experience tells us that most travel arrangements are made by their secretaries with the result that traditional discount air fares are not always widely used. The discount air fare contracts, the discount lodging program, and the travel delivery mechanisms which we have dicussed here would go a long way in correcting this. Similarly, it is the responsibility of the agencies to institute proper travel management practices including the designation of travel routings and management determinations that all travel, including the conduct of conferences, is being conducted in the manner most likely to minimize travel costs, while keeping down the number of persons who must travel to be in attendance. This is an area in which GSA is taking the lead. We have instituted procedures designed to ensure that meetings are held in the most cost effective location. We are currently working on a computer model which will enable any agency to determine, based on the number and location of meeting attendees, where conferences should be held at the lowest possible cost.

There are two other areas where management controls are necessary to keep down travel costs. One area involves travel by consultants and the other involves training. There is a tendency to award consultant contracts without assuring that travel under those contracts will be in conformance with allowances for Federal employees. The result of this is that while a Federal employee traveling with a contract consultant must fly on a contract airline, stay at a hotel and limit expenditures for meals in accord with the per diem allowance, the contractor can fly first-class, stay in the finest hotels and eat at the best of restaurants and do it all at Government expense. In the training area, it is all too frequent for students to be flown to a central site for training rather flying one instructor to the location of his/her pupils. Careful coordination between training and travel staffs can result in significant savings.

One other way to save money on travel is not to travel at all. In some cases video-conferencing or tele-conferencing provide attractive alternatives to travel. This is another area in which managers must determine the best way for people to deal with problems. On-site problem resolution is not always essential. We must teach managers that the easiest answer to a problem is not always found by putting someone on an airplane.

(3) Out of date and complicated reimbursement policies result in extremely high administrative costs, with little benefit to either the government or its travelers. In order to correct this obvious shortcoming, we are working at improving the Federal Travel Regulations and at revising the basis for entitlements and reimbursements to the Federal traveler. This includes simplifying the vouchering process and other changes to the Travel Regulations which will make administration of travel far less costly for the Federal agencies and less burdensome for Federal travelers. Thus, we will be tying changes in per diem methodology to changes in the voucher reimbursement system in order to achieve increased effectiveness and cost savings at both ends of the system.

Conclusion

The matters which I have addressed today are not new; you have heard about many of these things before. Our findings, our recommendations, and our attitudes toward travel parallel those of the General Accounting Office, of the Office of Management and Budget and, of course, many members of the House and Senate

and certainly this Committee. We are all concerned about the manner in which travel dollars are expended. The Administrator of General Services is firmly committed to a policy of cost containment while providing essential services to travelers engaged in official business on behalf of the Government.

This is an area in which, during the past several years, tremendous strides have been made by GSA and a number of other Federal agencies. However, there is still a great deal of work left to be done. We are looking forward to working with the departments and agencies, with GAO and OMB, as well as with the Congress, in formulating mechanisms which will result in savings to the Government while assuring that Federal travel supports the program outcomes for which the funding is actually provided.

In conclusion, let me say that the problem with Federal travel is one of insufficient management. The perception that Federal employees become rich while on travel status, while widely held, is clearly erroneous. The real problem with Federal travel is the failure of top agency management and of line managers to pay careful attention to employee travel and to the amount of money being spent by employees on given trips. There are many areas in which substantial sums of money can be saved if managers focus on opportunities such as the cost-cutting programs that GSA has pioneered.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or your fellow Committee members might have.

Chairman HATFIELD. Thank you very much, Mr. Beres. I want to congratulate the General Services Administration for your extraordinary leadership in developing this contract travel arrangement which saved millions of dollars in taxpayers' money. You should be highly commended for that innovation, for implementing it where you have.

Mr. Beres, I do want to come back to what you call "insufficient management as the key to the problem." Do you feel that it is a matter more of recordkeeping, more system rather than regulation that would correct and identify the problem more adequately?

We found in this survey, which I have already referred to earlier, that over 25 percent of the trips that had been made or examined, that the agencies had difficulty in giving reasons or purposes for such travel.

Is there a combination of better recordkeeping and more regulation? How do you assess the problem?

BETTER MANAGEMENT CONTROLS

Mr. BERES. I believe the answer lies in improvements—improvements in regulations, improvements in policies, and improvements in management attention; regulation per se is not the answer.

I think we need better policies, better procedures, and better awareness on the part of management. I am grateful that OMB and the President are both extremely cognizant of the problem and are doing their utmost to make their top managers throughout the executive branch aware that this is a matter they need to turn their attention to, and we will do all we can to help get the word out to all of the agencies.

Chairman HATFIELD. I hear you saying, then, that it is a matter of overall policy that such activity should be purposeful and enforceable but ultimately it comes down to the management system employed by the agencies themselves. Is that what I heard you saying?

Mr. BERES. Yes, sir. I think accounting for travel is one of the areas

that could be lumped into other administrative type of overhead expenses incident to the program. Managers often lose sight of the amount of such expenses when aggregated. Management attention, perhaps, is diverted from individual trips that might be quite small in itself but when you take the end of the year, the aggregate amount is considerable.

What we have to do is focus the managers' attention on the aggregate and how we can on an individual basis control priorities and insure that only the necessary, the required and those things that are really contributing to the program, the cost effectiveness of the Government, are going to be done.

PENALTIES TO AGENCY FOR INADEQUACY OF JUSTIFICATION FOR TRAVEL

Chairman HATFIELD. What would you suggest in the case of someone auditing an agency's travel and finding inadequacy of justification for travel on the basis of any guidelines or any criteria, just the absence of data information?

Mr. BERES. I would like to have Mr. Schaeffer respond to that.

Chairman HATFIELD. What would you recommend be done?

Mr. SCHAEFFER. Mr. Chairman, what we are doing is calling the shortcomings to the agency's attention and saying you lack management control, you have to install controls and we at GSA stand ready to assist the travel management staff in the agency to place controls, effective controls in place.

Second, we are including in our report to Congress, and I think it is a very effective tool, the numbers and the names of the agencies and we are saying to the agencies up front when the data is collected, this is mandated, the Administrator must send this to the Congress and Congress has the data and can use that data during the course of oversight.

Chairman HATFIELD. Let me interrupt you. It should be on the point of appropriations on the budget, not just oversight. Are we getting that data now? Are you forwarding that data to the Appropriations Committee?

Mr. SCHAEFFER. The data is being sent to the Speaker of the House and the President of the Senate and it contains an analysis of travel expenditures for all agencies that spend in excess of $25 million a year.

INADEQUACY OF CONGRESSIONAL OVERSIGHT

Chairman HATFIELD. But the inadequacy of congressional oversight is that it does not get in at the time where it is most meaningful, and that is when they are up here on the Hill asking for their annual appropriations. I am saying the Appropriations Committee should have access to this data, and if you are submitting it to the President of the Senate, I will instruct the staff to make sure we set up our system of communication with the Senate to get access to that because, frankly, that has been one of the failures of the Congress, inadequacy of oversight. If we wait to correct these things at the time of oversight hearings, we might never get it done.

Mr. SCHAEFFER. There is one additional step that we have already taken and are continuing to take, and that is in the travel delivery mechanism. If we can have a better system of controlling travel at the time a trip is booked, we can do a lot to eliminate abuses. If we can have travel control with SATO's and CATO's controlling the travel at the initial point and booking the travel on the most cost-effective motor transporation and the cheapest carriers and obtain discounts, we can do more to save money than anything else.

We have asked the Comptroller General for permission to conduct experiments in 11 of our regional cities which will be designed to do exactly this.

Chairman HATFIELD. Thank you very much. We have a vote call and we are down to the last 3 minutes. I am going to have to run.

SUBMITTED QUESTIONS

I want to thank you, Mr. Beres, and gentlemen, for your contribution today. We have a number of questions here that I will submit to you in writing. I would like to work closely with your agency, and if we can be helpful in turn I wish you would feel free to call upon us.

In the meantime, I will ask Mr. Post and Mr. Gregg from the Office of Personnel Management to position themselves.

[A brief recess was taken.]

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by the Full Committee

Question: How much unnecessary travel occurs because of overly loose authorization procedures within agencies?

Answer: It is not possible to quantify the amount of unnecessary travel that occurs under current authorization procedures. The Travel Management Questionnaire administered by the Interagency Travel Management Improvement Project (ITMIP) and the GAO report "Proposals for Improving the Management of Federal Travel" both show a wide divergence of travel authorization policies and procedures among agencies. In some agencies, whole organizations are covered by general authorizations which permit virtually unrestricted travel. In other agencies, individual trip-by-trip authorizations are used exclusively. Many agencies have elevated approval of travel to levels where the approving officials have no real way of knowing the impact or reasonableness of a specific trip. The other extreme identified by the GAO involves verbal approval of travel by low-level supervisors who have little knowledge of overall program travel priorities. The ITMIP also found a wide variation in the format of and information provided on travel authorization forms, adding to the difficulty of identifying unnecessary travel. In many cases, the purpose of the requested travel is "to conduct official business" or something similarly vague. Without more specific information on the purpose of travel, an approving official would be unable to evaluate its importance or assure that the trip taken corresponded to the trip approved. Under such procedures it is impossible to identify and quantify unnecessary travel. Uncovering poor management practices and recommending improvements, however, was the purpose of the ITMIP in which GSA participated. Implementation of the ITMIP recommendations for improving travel authorization procedures and designating travel by purpose would be the appropriate vehicle for identifying and eliminating unnecessary travel.

Question: GAO frequently cites the Department of Agriculture as an example of poor travel authorization procedures. What can GSA do to rectify these weaknesses?

Answer: OMB proposes to form a Travel Implementation Coordinating Group made up of representatives of the travel oversight agencies, including GSA. This committee would coordinate the policy initiatives and other actions required to implement the ITMIP recommendations. If formation of the group is approved, GSA, as a member, would require that individual travel planning be included in the travel authorization process. In addition, we would implement the following ITMIP recommenations designed to tighten travel authorization policies in the agencies:

- Discontinue use of general travel authorizations for entire agencies or groups of employees. Each traveler should complete a written document specifically stating certain information, including the purpose and the key characteristics of the travel being authorized.

- o Permit limited open authorizations only for those employees, who travel frequently within a stated geographical area. The limited open authorizations should be written, valid no more than 90 days, and contain realistic limitations on the purpose(s), the geographic area, the trip duration, and maximum trip cost of the travel being authorized.

- o Permit unlimited open authorizations only for department heads, agency heads, and managers of major subunits where no immediate supervisor is present.

- o Require trip-by-trip authorizations for conference and training travel and entitlement and relocation travel. This could perhaps be broadened to include on an individual agency basis other types of travel as well, depending on importance, frequency, and cost.

- o Delegate approval of travel to the lowest appropriate management or supervisory level which has responsibility for both program accomplishments and utilization of funds.

- o Require higher level review only of authorizations for international travel, relocation travel, entitlement travel, and conference or other types of "administrative" travel. Final approval authority for conference travel should be assigned to the individual responsible for reviewing conference travel requests for all employees in a unit or office to assure that attendees are kept to the minimum necessary.

- o Clearly state the purpose(s) for the travel being authorized on all travel authorizations consistent with the standard-purpose categories developed for Government-wide travel cost reporting purposes.

Question: Couldn't the travel regulations set forth minimum criteria to eliminate general travel authorizations?

Answer: Presumably the travel regulations could be used as the vehicle to tighten travel authorization procedures in the ways recommended by the ITMIP. However, the Travel Implementation Coordination Group would coordinate the implementation phase and ultimately decide, under the guidance of OMB, the appropriate implementation methods.

Question: GSA has reported that improvement is needed in collecting excessive travel advances. Has any progress been made in this area?

Answer: GSA's statements regarding the need for improvement in collecting outstanding travel advances have been based on information obtained as a result of GSA's participation in the ITMIP. The ITMIP has recommended the following to improve the travel advance process:

- o Modify procedures for travel advances to permit payment through the use of travelers checks obtainable through bank computerization on a 2-day notice. This system would provide the agency accounting office with

frequent, printed reports or computer data on the checks ordered by each traveler. It would then be a simple matter to verify that the value of the checks ordered by the employee agrees with the amount of advance authorized, the amount reported on the travel voucher, and the amount that is appropriate for the particular trip.

- o Issue permanent travel advances only to employees in frequent travel status. Review all permanent advances every 90 days and recall any advances issued to individuals who have not traveled during that 90-day period. The ITMIP indicates that this will reduce the travel advance float and result in short-term interest cost savings in FY 1982 of $0.3 million based on the FY 1980 average interest rate.

Question: Do agencies have the authority to charge interest of employees who do not promptly pay back travel advances, or deduct the advance from their salary?

Answer: Treasury Regulations (I TFRM 6-8000) provide for the charging of interest on any payment that has been declared to be late. The Federal Travel Regulations (FTR) provide that "outstanding advances which have not been fully recovered by deductions from reimbursement vouchers or voluntary refunds by the traveler shall be recovered promptly by a setoff of salary due or retirement credit or otherwise from the person to whom it was advanced, or his estate, by deduction from any amount due from the United States, or by any other legal method of recovery that may be necessary." The ITMIP recommends strengthening these recovery procedures by requiring departments and agencies to follow-up on travelers who do not immediately refund excess trip-by-trip advances and recover these advances from an employee's salary no later than 60 days after issue of the advance.

Question: GSA has recommended that agencies consider teleconferences as a cost-effective substitute for the travel expenses involved with conferences. Is there any evidence that this suggestion is being implemented by the agencies?

Answer: In the early summer of 1974 the GSA "Conserve Energy Travel By Phone" program was launched. Slow in starting -- 54 teleconferences in November of 1974 -- the use of the service became more and more acceptable and today the GSA teleconference facilities are programming an average of 500 teleconferences a month. The 500 conferences connect six or more locations. When five or fewer is the requirement, the conference is arranged by the local switchboard operator. This procedure was introduced in 1978 in order to relieve the heavy volume on the teleconference bridges. There are approximately 1200 teleconferences being programmed by the switchboard operators each month. Combined, the FTS is providing the Federal community with some 1700 teleconferences each month and it is expected that the growth pattern will be even more severe in the next few years than it has been in the past.

This increase is easily understood when you analyze today's economic conditions. Although the program started as an energy conservation effort the real benefit is the savings in travel costs. Escalating costs in the past two years -- including air fares (up 40%), hotels (up 25%), taxis (up 20%), and restaurant food (up 18%) -- is forcing

a review of the travel patterns in the Federal community. Added to this is the severe reduction in the travel budget by the Administration in their effort to balance the budget. But, the Government must continue to function.

The answer, it would seem is to transmit the information to the people rather than transmitting the people to the information.

Some of the agencies are using facilities other than the FTS to satisfy their teleconferencing requirements. We do not have volume reports from the agencies but we do know that the dedicated NASA network that is controlled out of Huntsville, Alabama is very active. The Department of Energy has a teleconferencing capability in their switchboard at the Forrestal Building. The Department of Education uses the bridge, that they funded, at the University of Wisconsin. There are, no doubt, others who use either their own systems or other available facilities.

Question: Both GAO and GSA are recommending changes in the system for reimbursement of travelers to high cost cities. GAO recommends adoption of the lodgings plus system, whereas GSA would go to a flat fee system. How much extra cost is involved in administration of the lodgings plus system over the flat fee system?

Answer: The ITMIP does not have sufficient data to determine the actual cost of processing locality-based flat rate per diem vouchers. Therefore, we are unable to compare costs attendant the two systems. Although it is not possible to quantify the additional cost, the ITMIP believes it is significantly higher because of the extra computation involved in determining individual lodging cost per trip.

Question: Are there any other advantages besides processing cost to implementing the flat fee system or lodgings plus?

Answer: GSA and the ITMIP believe the locality-based flat rate system is more equitable since, unlike the lodgings plus system, it does not impose ceilings on both lodging and meal costs, thereby forcing travelers whose expenses exceed either ceiling to absorb the cost. We also believe the locality-based flat rate system would be more responsive to variations in actual subsistence costs among different localities and would provide greater flexibility for travelers to make lodging and meal choices.

Question: Won't there be significantly more overpayment under flat fee than lodgings plus?

Answer: The ITMIP was aware of the view that some travelers might be paid in excess of their expenses under a flat rate system. The ITMIP offers the following arguments to counter this perception in the project's draft report:

- o According to both GAO and GSA studies, most lodging claims equal or exceed the ceilings; therefore, there is little chance that the lodgings plus method substantially saves lodging costs or prevents excess lodging reimbursement.

- o The concern that many travelers stay with relatives and might pocket the lodging reimbursement appears unfounded. According to the voucher sample, almost 99 percent of all lodging is obtained from commercial or Government sources.

- o The potential for excess meal reimbursement is equal for both the locality-based flat rate and lodgings plus methods. However, the locality-based flat rate offers the flexibility to cover an above-standard lodging choice with a below-standard meal choice and vice versa. The lodgings plus approach does not.

Question: You indicate in your statement that use of the contract airline arrangements implemented by GSA are mandatory, with limited exceptions. Can you estimate what percent of Federal travelers availed themselves of one of these exceptions?

Answer: For the period July 1 through December 30, 1980, Federal employee use of the contract air carrier program averaged 34 percent of the total airline services used. Accordingly, approximately 66 percent of all Federal travelers did not use the program during this initial contract period. Though this percentage indicates only moderate usage of the program, we are optimistic that usage will continue to improve as agencies and employees become familiar with the program. However, we intend to continue monitoring agency utilization of this program.

Question: Will your lodging program in major cities also be mandatory?

Answer: No, we believe the preferable approach to this program is a nonmandatory one. However, Federal employees are induced to participate in the lodging program since they are more likely to be able to travel on official business without expending personal funds.

The Government benefits from the "flow-through" effects of this program. Since employees will be able to get accommodations at lower rates, their overall subsistence costs will be less. GSA high rate geographical area studies will utimately reflect these lower rates. Maximum levels of reimbursement will consequently be less as a result of this program.

Questions Submitted by Senator Proxmire

Question: Since agencies are required to report their use of first class accommodations periodically, can you tell us how often such accommodations are used, what percentage appear to be justified, and what you do with the reported information?

Answer: Federal Travel Regulation 1-3.3d provides that employees shall use less-than-first-class air accommodations. Exceptions to this policy may be authorized by the agency head (or his/her deputy) under the following conditions:

1. Space is not available in less-than-first-class accommodations on any scheduled flight in time to accomplish the

purpose of the official travel, which is so urgent that it cannot be postponed.

2. First-class accommodations are necessary because the employee is so handicapped or otherwise physically impaired that other accommodations cannot be used, and this condition is substantiated by competent medical authority.

3. First-class accommodations are required for security purpose or because exceptional circumstances, as determined by the agency head (or his or her designee), make their use essential to the successful performance of an agency mission.

4. Less-than-first-class accommodations on foreign carriers do not provide adequate sanitation or health standards, or

5. The use of first-class accommodations would result in an overall savings to the Government based on economic considerations, such as the avoidance of additional subsistence costs, overtime, or lost productive time that would be incurred while awaiting availability of less-than-first-class accommodations.

Based on an analysis of the agency reports received in GSA, 50 percent of the first class air travel is justified under exception 3 above, 21 per cent under exception 2, 26 percent under exception 1, and 3 percent under exceptions 4 and 5. We have returned for further explanation agency justifications that we deemed to be inadequate. However, virtually all of the first-class travel does appear to be fully in accord with these regulations.

The frequency of use of first-class air accommodations appears to be minimal. In our June 2, 1981, report to Congress, as required by Public Law 96-346, we compared the cost of first-class air travel used by the 26 agencies spending over $5 million for the transportation of people, to the estimated common carrier (bus, rail and coach-class air travel) cost for these agencies. The additional cost of first-class air travel ($234,796) for the 26 agencies was .00023 of the estimated total common carrier cost ($1,029,221,654) for FY 1980. Use of first-class accommodations is therefore quite small--on a cost basis just over two hundreths of a percent of the total common carrier cost.

Question: GSA regulations state that all travel authorizations should be as specific as possible. Yet the Department of Agriculture has continued to use a General Travel Authorization to permit almost all of its employees to travel within the contiguous United States without any written orders whatsoever. GAO cites the case of a GS-9 forest ranger who verbally approved her own and her subordinates' travel without consulting with her supervisors. Why have you allowed such slipshod and informal practices to continue and what plans do you have for standardizing and tightening travel authorizations?

Answer: General or "blanket" or "open" authorizations as they are sometimes called are not incompatible with the GSA travel regulation stating that "authorizations shall be as specific as possible in the circumstances as to the travel to be performed." It was intended that this regulation should also apply to general-type authorizations which serve a necessary

purpose for employees who travel frequently within a given area to perform repetitive types of tasks (routine inspection of meat-processing plants, for example) or for the travel of high-level officials responsible for determining the importance of their own travel. However, as discovered by the ITMIP, use of general authorizations has been perhaps too liberally allowed and many agencies have not observed the "specificity" requirement by specifically limiting the geographic area, trip duration, maximum trip cost, etc. on these types of authorizations. The proposed ITMIP changes would effectively standardize and tighten travel authorization procedures.

Question: What have been the savings so far under your contract airfare program?

Answer: For the period July 1, 1980, through March 31, 1981, we estimate that GSA's contract air carrier program resulted in a savings to the Government of approximately $9.4 million. During this period, over 100,000 employees used contract air carriers. Data on savings for the period April 1 through June 30, 1981, are not as yet available.

Question: The costs?

Answer: For the period July 1, 1980, through June 30, 1981, it cost GSA approximately $144,000 to administer the air carrier program. The total cost includes the salaries of the employees who worked on the project as well as the cost of printing, publishing and distributing three issues of the "Federal Contract Air Service and Travel Directory" to the executive, legislative and judicial branches.

Question: Do you have any information on whether agencies are making full use of the contract flights?

Answer: Agencies report that during the period July 1 through December 31, 1980, 34 percent of all Federal travelers used the airline contracts. We believe this moderate level of contract utilization is because the program is new and because of the legitimate exceptions to contract usage. Nevertheless, we are monitoring this closely to ensure that the agencies are using these discount fares in accordance with our regulations. This information is only available for this 6-month period because the initial contracts required agencies to report to GSA on the number of air carrier trips taken and whether contract or noncontract airlines were used. This has not been required for subsequent contract periods because of the cost and administrative burden to the agencies. However, our contracts for the period January 1 through June 30, 1981, required the contract air carrier to submit a quarterly report to the Military Traffic Management Command. This report contains a breakdown of the number of Government travelers and the resulting revenues. This report provides the basis for our more recent use analyses.

Question: Why aren't Government contractors and grantees currently required to use the contract airfares wherever practicable?

Answer: Presently, the only contractors that can use use GSA sources of supply and services are cost-reimbursable contractors.

Grantees are not eligible to participate in the contract airline program. Pursuant to letters dated May 16, 1972, and September 19, 1972, OMB directed GSA to discontinue providing services and sources of supply to grantees. In response to those directives, the Administrator discontinued the use of GSA sources of supply services by Federal grantees (F.R. Vol. 37, No. 220, November 14, 1972).

Cost-reimbursable contractors are authorized to utilize GSA sources of supply and services where it is considered in the best interest of the Government in terms of economy and efficiency. The Federal Procurement Regulations (41 CFR Subpart 1-5.9) contain the policies and procedures for Federal agencies regarding the use of GSA supply sources by cost-reimbursable contractors. Specifically, the regulations provide that when an agency determines that it is in the best interest of the Government to do so, the agency shall authorize in writing its prime contractors and, where appropriate, their subcontractors, to utilize GSA supply sources in performing Government contracts.

Question: Apparently your own internal auditors found that senior officials at GSA:

-- authorized a conference in San Antonio, Texas, where 45 of 86 participants were from the Washington, D.C., area;

-- authorized two conferences in Colorado Springs, Colorado, where 14 of 37 participants at the first conference and 47 of 72 participants at the second conference were from the Washington, D.C. area; and

-- knowingly accepted or arranged luxury hotel accommodations for themselves at little or no personal cost.

How can we expect the government as a whole to correct travel abuses if the agency charged with supervising travel practices has such ineffective internal controls?

Answer: In recognition of the need for more effective internal controls regarding conferences and associated travel, GSA, on February 4, 1981, issued new internal regulations (GSA Order, Control of Internal National Management Conferences and Meetings, ADM 5420. 65). It is expected that these new regulations will prevent any further abuses of the type you have identified. A copy of this directive is enclosed.

Question: Have you taken any steps to correct these internal abuses?

Answer: The General Services Administration has taken the following steps to correct these internal abuses:

1. An internal order has been issued limiting nationwide conferences to one per year unless additional ones have been authorized by the Administrator or Deputy Administrator. A cost benefit analysis must also be performed for each proposed national management conference to

ensure that the conference will accomplish its purpose at the least cost to the Government.

2. A computer program has been developed to determine the best location in terms of minimizing travel costs to the Government for management conferences.

3. An internal directive was issued in November 1980 which limits reimbursement for meals and miscellaneous expenses to 45 percent of the authorized rate when traveling to high-rate geographical areas or on the actual expense basis because of unusual circumstances.

4. An internal order was issued in April 1981 which defined the responsibilities of travel authorizing and approving officials.

Question: GAO has estimated that the costs of travel voucher checking and processing were as high as $400 million in fiscal year 1979. Furthermore, GAO claims that processing procedures at federal payment centers are highly inefficient, costing up to $4 or $5 per voucher processed. By contrast, some centers are highly efficient. According to GAO, the Agriculture National Finance Center processes travel vouchers at an average cost of $.42 per voucher. Have you attempted to streamline voucher processing operations on a pilot basis to achieve cost savings? If not, why not?

Answer: In January 1981, GSA implemented in our Central Office, a pilot program of statistical sampling for payment of travel vouchers. We feel that the pilot program has been satisfactory; therefore, statistical sampling will be implemented in all paying offices prior to the end of fiscal year 1981. GSA also issued an internal directive in April 1981, which defined the responsibilities of travel authorizing and approving officials. Travel vouchers are now subject to only one supervisory review. By defining responsibilities, unnecessary reviews of travel authorizations and vouchers are eliminated.

Question: Have you attempted to analyze the operations of the various centers that check and process travel vouchers to determine why some do their job so inexpensively and some are so costly? Why should HUD's Philadelphia center have to spend $5.80 per voucher while the Department of Agriculture processes vouchers for only $.42 a piece?

Answer: The GAO recommendation regarding the increase of voucher processing productivity was directed to all department and agency heads. As such, GSA's implementation plans are aimed at streamlining GSA's internal voucher processing procedures to increase productivity. GSA does not have oversight responsibility for other agencies in this area. Productivity is directly linked to accounting and administrative procedures which are responsibilities of the individual agencies. These procedures vary between agencies. This variance is the probable cause of the vast difference in voucher processing costs.

Question: In response to a GAO report on the productivity of processing travel vouchers (AFMD-81-18, January 19, 1981), you agreed to implement productivity standards for federal payment centers. How far have you proceeded in implementing such standards?

Answer: In GSA's response to the subject audit report, we agreed to develop productivity standards only for our own voucher processing centers. We did not agree to nor feel it is our role to develop productivity standards for all federal payment centers. We plan to develop productivity standards for GSA in the last half of fiscal year 1982, after implementation of our redesigned accounting system which is scheduled for completion in March 1982.

Question: What savings can we anticipate in fiscal year 1982 as a result of improved productivity?

Answer: We are unable to estimate the amount of anticipated savings in fiscal year 1982 as a result of improved productivity.

Question: Please provide for the record the total cost of running each voucher processing center in fiscal years 1980, 1981 and 1982 and the cost per voucher for each center in fiscal year 1980.

Answer: The estimated costs (salaries and fringe benefits) of operating each voucher processing center of the General Services Administration are listed below. These figures do not reflect the cost of overhead and indirect supervision. Our voucher processing centers pay commercial and government bills as well as travel vouchers.

Location	FY 1980	FY 1981	FY 1982
Central Office	$285,360	$360,992	$379,030
Region 1	113,796	70,955	74,503
Region 2	294,292	307,748	323,118
Region 3	*	158,746	166,692
Region 4	184,556	239,482	251,430
Region 5	126,034	151,670	159,268
Region 6	669,900	711,312	746,866
Region 7	390,224	468,292	491,724
Region 8	100,804	112,636	118,262
Region 9	380,480	437,262	459,128
Region 10	91,930	115,304	121,046
Region W	594,326	711,312	746,866
	$3,231,702	$3,845,711	$4,037,933

*In fiscal year 1980, this region was part of Region W

In fiscal year 1980, 2,329,343 vouchers of all types were processed. The average cost per voucher by processing center is as follows:

Location	Cost per voucher
Central Office	$3.88 **
Region 1	3.91 ***
Region 2	1.25
Region 4	1.64
Region 5	1.30
Region 6	1.27
Region 7	.95
Region 8	1.20
Region 9	.95
Region 10	1.18
Region W	2.12

** Processing costs in Central Office are higher due to the complex nature of certain voucher payments made in appropriated funds which are controlled mainly in the headquarters office.

*** Staffing in Region 1 was reduced by 27 percent in Fiscal Year 1981. It is necessary to have a minimum staff in each region to provide financial management support to the Regional Administrator; due to the region's lower volume of payments, the unit costs per voucher are higher.

Question: In its January 19, 1981 report, GAO claimed that current auditing of vouchers at several centers was not at all cost efficient. Reaudits netted only two cents per voucher in one instance and did not recover a single penny in another case. In response, you agreed to implement statistical sampling techniques and to streamline auditing procedures. How far have you gotten with this project and what savings do you anticipate in the auditing process?

Answer: In January 1981, GSA implemented statistical sampling of travel vouchers in our Central Office. Statistical sampling of travel vouchers will be implemented in all paying offices prior to the end of fiscal year 1981. Estimated savings in our Central Office for the first six months of processing travel vouchers using the sampling technique amounted to approximately $2,100. After the sampling technique is implemented nationwide, we estimate a savings of approximately $20,000 for fiscal year 1982.

Question: Federal agencies often contract for the use of non-government facilities to train federal workers. Does GSA have any responsibilities for insuring that government training facilities are not available before contracts are awarded for use of non-government facilities?

Answer: Chapter 410 of the Federal Personnel Manual, which implements Title 5, USC, chapter 41, authorizes each individual agency head to enter into agreements for the training of employees by, in, or through non-Government facilities. GSA has no Government-wide responsibilities in this area.

GSA, by internal regulation, does require that its managers and supervisors first give consideration to facilities within GSA and then to those available within the Government as a whole. When no adequate facilities are reasonably available with the Government,

non-Government facilities may be used. Government resources may be considered inadequate when:

- GSA lacks the resources to provide its own training.
- A suitable program cannot be developed in time to meet the training need.
- Suitable training is not available elsewhere in the Government.
- It would be more expensive in terms of time, distance, and other factors to use Government resources. (See enclosed OAD P 3610.17, 1-6)

Questions Submitted by Senator Sasser

Question: The budget presented by the previous Administration for the General Services Administration estimated that $24 million would be spent for travel in fiscal year 1981 and $26 million in fiscal year 1982. Have you been able to reduce these estimates? What are you now projecting to be your travel budgets for these two years?

Answer: The revised budget for GSA reflects reductions in travel for each account of this agency for fiscal years 1981 and 1982 totaling $2,411,000 and $3,953,000, respectively. Accordingly, the total revised travel estimate is $21,701,000 for 1981 and $22,411,000 for 1982.

Question: Two years ago I drafted an amendment which became law which prohibited the use of Federal funds to contract for plant care and watering services for indoor office plants. The amendment was aimed at forcing employees to provide their own plants if they want them in their office and to provide for their own care and watering. My amendment permitted providing plants and plant care for public use areas -- it was aimed at only the plants in government employees individual offices.

I drafted the amendment after I received testimony from the Copyright Royalty Tribunal that in fiscal year 1980 the Tribunal was planning to spend $1,100 for plant purchase and care for the offices of its 11 employees. I thought this was an abuse of the taxpayers money. I asked GAO to look at the issue and found that the Federal Government was contracting out for such services at a cost to the taxpayers of approximately $250,000 per year.

When I offered my amendment, an individual called my staff and reported that he worked for a plant watering contractor and that he agreed with my amendment. He told my staff that on each Monday morning he got on a plane and flew to a New England state, rented a car, checked into a hotel and then proceeded to water plants in that city's Federal office buildings.

He then checked out of the hotel, turned in the rental car and flew back to Washington where he watered plants in this city for the next three days. This all was paid for by the taxpayers. At the time,

it seemed to that employee, and to me, to be an unnecessary frill that should be curbed. My amendment was aimed at putting a halt to that -- it was aimed simply at forcing employees to water their own plants.

I thought we were meeting with success. Last year when the appropriations bills were being drafted, I checked to see if further restraints were necessary, but it appeared that the agencies were complying and that further restraints were unnecessary at that time.

In yesterday's Washington Star, however, Tom Dowling reported that Federal employees are still getting their plans watered -- only now they are being watered, not by private contractors, but by the General Services Administration -- and, worst of all, that it is now costing the taxpayers more than it was costing at the time my amendment passed.

I was appalled to find that the GSA has found a loophole in the amendment and the regulations and is proceeding with the very abuse we in the Congress were trying to curb.

I can't imagine that GSA wants to be in the plant watering business for Federal employees who are perfectly capable of watering their own plants. I am going to put GSA on notice at this hearing, that this abuse should be stopped immediately. I am going to ask that you tell the Administrator that I hope GSA will immediately begin to inform Federal agencies that employees must provide and care for their own plants. And I don't expect to see a bureaucratic response which is aimed at doing away with all plants -- plants in public use areas should be provided, but the taxpayer should not be expected to pay to beautify some minor official's office with plants and plant care -- that should be the responsibility of the employee.

Now I want to be very clear about this, if the Administration doesn't move in an expeditious manner to take care of this abuse, then I will draft the appropriate legislation which will have no loopholes in it -- and there will be no way the intent of the legislation can be frustrated by bureaucratic interpretation.

I hope GSA gets my message -- this abuse must be halted and halted now. Would you care to comment on this?

Answer: The General Services Administration (GSA) understands your concern that the taxpayers' money is being wasted on watering and caring for plants in individual employees' offices We agree that there is no reason why individuals who bring their own houseplants in cannot care for them. This, in fact, is a common practice among Federal employees and has been for some time.

However, problems arise when Federal employees are asked to care for exotic tropical plants which have been placed in the workspace as an integral part of the office design. As you are probably aware, the open office concept is used in many Federal buildings. This type of design includes the use of tropical plants for screening, sound absorption, and aesthetic purposes. These agencies have made an investment in tropical plants which will be lost if professional maintenance is not provided. Previous experience with Federal employees taking over the maintenance of tropical plants has been unsuccessful for several reasons, including the following:

1. Tropical plants provided in Federal office buildings are usually larger and more exotic than plants found in the home.

2. In addition to being watered, these plants must be cleaned, pruned and sprayed for insects.

3. Under professional maintenance, when a plant is attacked by insects or diseases, it is usually removed from the office for treatment by a certified pesticide applicator.

4. Different plants need different amounts of light and moisture. If these conditions are not met, the plans will deteriorate and die.

GSA's policy in relation to the maintenance of plants in Federal buildings is as follows: The maintenance of plants in public space such as lobbies is permitted and it is also allowed when tropical plants are part of the open office design of the building. Plants located in private or semi-private offices will not be maintained by GSA. Plants in the private offices of cabinet level officials would not be maintained by GSA. Maintenance of plants will be accomplished by either contract or force account, dependent upon which is more cost-effective.

We believe it is a reasonable policy to maintain the plants which are an integral part of the design of our buildings and which help make Federal buildings attractive, pleasant places for people to conduct business in our visit.

OFFICE OF PERSONNEL MANAGEMENT

STATEMENTS OF:

RICHARD B. POST, ACTING ASSOCIATE DIRECTOR, STAFFING SERVICES
JAMES M. H. GREGG, ASSOCIATE DIRECTOR, WORK FORCE EFFECTIVENESS AND DEVELOPMENT
TERRY W. CULLER
THOMAS H. LOFTIS, TRAINING OPERATIONS
MORTON I. HORVITZ, CHIEF, OFFICE OF POLICY ANALYSIS AND DEVELOPMENT, STAFFING SERVICES

INTRODUCTION OF WITNESSES

Chairman HATFIELD. The hearing will resume. Mr. Post, I am happy to welcome you here today. I want to apologize again for the lateness of this hour. It is inexcusable. I trust that you will understand the situation. It is beyond my control.

Mr. POST. Certainly.

Chairman HATFIELD. Would you please present your colleagues and then proceed to summarize your statement; highlight it if you will, please, and the entire statement will be placed in the record.

Mr. POST. Thank you, Mr. Chairman. We will certainly do our best to keep this short.

We are dealing with two main technical areas that you are interested in; the employment of consultants and the training area; therefore, we have two principal witnesses here with us this afternoon.

Chairman HATFIELD. Yes, Mr. Gregg.

Mr. POST. Mr. Gregg on my right, who is the Associate Director for the Work Force Effectiveness and Development area. He has with him Mr. Terry Culler from the Executive Personnel Management and Development area. Mr. Loftis, who is the head of Training Operations under Mr. Gregg.

I have on my left Mr. Morton Horvitz, who is the Chief of the Office of Policy Analysis and Development in the staffing area, directly under my operation.

Chairman HATFIELD. We welcome all of you here, Mr. Post, Mr. Gregg.

Mr. POST. Thank you.

CONSULTANT SERVICES

We do appreciate the opportunity to appear before you in connection with your inquiry into these important areas. I would like to comment particularly about the area of consultant services.

First of all, I should point out that the role of the Office of Personnel Management is a rather limited one in the consultant picture. As you have heard this morning, most of the consultant services are obtained by contract.

According to the Office of Management and Budget, that figure was about $415 million in 1981. Our role is on the employment side; that is, consultants serving as employees, where there is an employer-employee relationship. That amounted to about $28 million in fiscal year 1981 and about 3,000 employees serving in the main and on an intermittent basis.

EMPLOYMENT OF CONSULTANTS

The basic authority for the employment of consultants is section 3109 of title V, which gives agencies the direct authority to hire consultants, either on a temporary or an intermittent basis.

This law excepts those appointments from most civil service laws; and it sets a limit on the pay of not more than $192 a day at the present rates. Most consultants are paid somewhere between $98 and $140 per day.

Because these various Federal agencies using consultants have direct authority to hire them, our oversight and our enforcement powers are limited. Essentially, we tell the agencies that consultants must serve as consultants; that is, they must be in an advisory capacity and not do any work of a continuing nature which would normally be performed by regular employees.

In other words, our review of consultant appointments is to make sure that agencies are not using the authority in section 3109 to evade the civil service laws.

Our onsite evaluations show an overall proper use of consultants and relatively few abuses.

The misuse we found consisted mainly of using the consultant authorities as a stopgap pending receipt of an OPM certification for a career job, pending the approval of a schedule C position by OPM, to avoid the competitive appointment procedures for regular positions or to circumvent ceiling restrictions.

During the 4-year period between 1975 and 1979, we found errors in less than 7 percent of the actions reviewed.

The lack of a clear cut enforcement authority has been a problem to us, and we have supported legislation which would give the Office of Personnel Management explicit authority in this area. Some of the witnesses here this morning, I believe, have also shown an interest in clarifying and updating section 3109.

I would be happy to respond to any questions that you have in this area.

EFFECT OF S. 719

Chairman HATFIELD. Mr. Post, let me ask you just one question that is related to Senator Pryor's Senate bill 719, which does amend the revised section 3109 to which you refer——

Mr. POST. Yes.

Chairman HATFIELD [continuing]. By giving OPM the authority to direct the agencies to take corrective measures and other such matters. Have you put yourself on record in relation to this bill; and how does it differ from the authority that has been previously sought by OPM?

Mr. POST. Let me answer it this way: First of all, directly in response to your question, have we gone on record on 719? The answer is no. However, we are in the process right now of developing a report on that bill at the request of the Senate Committee on Governmental Affairs.

Chairman HATFIELD. Good.

Mr. POST. I would expect that it would be available soon. Of course, it has to go through the Office of Management and Budget.

Chairman HATFIELD. Would you mind sending to us a copy of your analysis?

Mr. POST. I would be happy to.

LEGISLATIVE PROPOSAL

Let me comment on the more general question in this way, and say that we did prepare a legislative proposal last year to amend that section to give us the enforcement power and to upgrade and clarify particular parts of the authority.

That did clear OMB. It was introduced in the Senate as S. 2506 and in the House as H.R. 7657. While the Congress did not act on these bills, our proposal was introduced with several changes with which we disagreed as one part of the Consultants Reform Act of 1980, which aimed primarily at controlling contracting out for consulting services with independent firms.

Hearings were held on the latter bills, but neither was reported out.

With regard to OPM's 1980 legislative proposal, we proposed the following changes. This, I think, would be useful to you as background, perhaps, and of assistance in comparing this with what 719 says. We proposed in our bill of 1980 that the following changes be made in 3109: First of all, to eliminate any reference to procuring of services of individuals by contract. That is, we are dealing with employment, and the use of contract language kind of muddies it up a little bit.

Second, we proposed to eliminate the requirement for agencies to have a separate statutory triggering authority before they could use the general statutory authority in 3109.

Next, we would have established GS–18 as the general top pay rate for individuals at agencies which are subject to the classification and pay laws, rather than the current stipulation.

We would have assigned OPM the enforcement and regulatory authority over employment of experts and consultants, including the authority to order corrective action and, if necessary, to suspend appointment power.

We would include definitions of the two commonly used definitions of consultant and expert; and we would require independent agencies to follow the principles in section 3109, even though they have separate statutory authority.

That was basically what we were proposing in our bill last year.

[The statement follows:]

PREPARED STATEMENT OF RICHARD B. POST, ACTING ASSOCIATE DIRECTOR FOR STAFFING SERVICES, OFFICE OF PERSONNEL MANAGEMENT

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you in connection with your inquiry into consulting services.

I understand you are interested in the use of consultants by the Federal Government generally and how the Office of Personnel Management fits into the picture. I hope I can provide some enlightenment in what is a very complex area.

Federal agencies have two ways of acquiring consulting services, either by employment or by contract with private firms or individuals. The general authority to hire consultants as Federal employees is section 3109 of title 5, United States Code. Contracting for services is under the procurement laws in title 41.

I should point out that OPM's responsibility is limited only to employment of consultants. The Office of Mangement and Budget (OMB) is responsible for setting procurement policy, including policy on contracting for consulting services.

Section 3109 of title 5 gives agencies direct authority to hire a consultant for temporary (not to exceed 1 year) or intermittent services. This section excepts such appointments from key civil service personnel laws requiring competitive examination, position classification, and General Schedule pay levels. But it places a general lid on pay, which is the daily rate for grade GS-15. At present pay scales, this means a consultant may not be paid more than $192 for each day worked.

Section 3109 does not authorize any agency to oversee agency use of consultants. However, as part of our general review responsibilities, we do monitor the employment of individual consultants primarily to assure that this authority is not used to circumvent the merit system through improper exceptions.

We have issued instructions to agencies which appear in chapter 304 of the Federal Personnel Manual which described the general conditions under which we believe consultants should serve. We say consultants should serve in an advisory rather than an operating capacity, and should not be assigned to continuing work or to tasks career employees can perform. Like Federal employees generally, consultants are subject to conflict of interest and financial disclosure requirements.

We regularly collect employment data on consultants. For example, according to agency reports for December 1980, 3,034 consultants were employed—117 on a full-time basis and the rest intermittently. It should be noted that of those serving intermittently, some work only 1 or 2 days in a month, and others may not work for several months at a time.

We review consultant appointments both as part of our general onsite audits of agency personnel programs and in special audits which focus solely on consultant employment. These reviews are aimed at ensuring the proper use of the authority to employ consultants. In the reviews we look at overall agency systems for appointing consultants, and we postaudit individual personnel actions to determine whether: The positions are actually consultative in nature; The employees are qualified for the positions; The agencies have determined that no conflict of interest exists; The 130-day limitation on services during the previous year is met in cases of employment extensions; and The employment records are accurate and adequate.

Our onsite evaluations show the majority of individual consultants hired are qualified, serve briefly, and otherwise represent proper use of authority. While we found no evidence of widespread misuse, we did find individual instances of improper actions. Based on our evaluations from 1975 to 1979, we found errors in less than 7 percent of the actions reviewed. In those cases, we found the authority was misused to appoint individuals pending OPM certification for career-conditional appointment or OPM approval of a Schedule C position, to avoid competitive employment procedures, or to circumvent ceiling restrictions.

In this regard, the use of consultant appointments to evade personnel ceilings will not be possible once the new full time equivalent ceiling system goes into effect this October. Under the present system, employees who go off the rolls before the end of the year do not count for ceiling purposes. Under the new system, agencies will receive an allocation of hours instead of employee spaces, and the hours will count regardless of when an employee went off the rolls during that year.

The lack of clear-cut enforcement authority has been a source of concern to us. Section 3109 does not give us any direct authority, so our efforts to prevent misuse are

based on intepretations of authorities taken from other personnel statutes. We have in the past supported legislation which would give the Office of Personnel Management explicit authority in this area. Congress and GAO have also expressed interest in clarifying and updating section 3109.

Thank you for giving me the opportunity to discuss consultant employment with you. I will be happy to respond to any questions you may have.

Chairman HATFIELD. Thank you very much, Mr. Post. Do you have other questions, Senator Stennis?

Senator STENNIS. I have interests, but, no, I don't have questions.

Chairman HATFIELD. Thank you.

Mr. POST. Thank you.

Chairman HATFIELD. I guess we can excuse you now if you wish to go on. Mr. Gregg is sort of the anchorman here.

Mr. GREGG. Thank you.

Chairman HATFIELD. Mr. Gregg, we are happy to have you here. We would appreciate it if you summarize your statement, and we will place the full statement in the record.

Could you pull the microphone a little closer?

FEDERAL INVESTMENT IN TRAINING

Mr. GREGG. Yes, sir. There is a substantial investment in training. $327 million was spent in fiscal year 1980 for the direct costs of training; $686 million was spent when one includes training salaries, as well.

When properly administered, this training investment makes an important contribution to improving Government operations. To not properly train our work force could result in great inefficiency and waste.

However, the training function, like any other function, must be administered with careful concern for cost-effectiveness and productivity improvement. There are a number of ways we can act to control training costs. These are discussed in our written testimony. I will just very briefly highlight a few of them now.

The area we believe needs greatest attention is the decision to train. If this is a good decision, the training investment is likely to be worthwhile. If it is a poor decision, money will be wasted.

Managers and supervisors must be equipped to make good training decisions. We believe that a very important new tool in this area is the performance appraisal now required by the terms of the Civil Service Reform Act. That law requires that training be linked to the appraisal of employee performance. This should help assure that the decision to train will be directly linked to the employee's performance needs and the agency's performance needs.

It will also enable us to better evaluate the effect that training has on performance.

BETTER MANAGEMENT OF TRAINING FUNCTION

In addition to making better individual training decisions, the training function itself must be better managed. We need to devise better cost models or cost standards for efficient training. We need to continue to stress cost-consciousness among all of our training managers. Cost-effectiveness can become a performance element in the training managers' own performance appraisal plans.

Finally, we need to encourage the use of less costly training techniques and cost-saving techniques in Federal training operations. For example, new ADP and office automation technologies can reduce both the cost of administering training programs and the cost of delivering training.

Teleconferencing technology, for example, may prove useful in avoiding some of the travel costs involved in training.

In addition, there are many simple steps that can be pursued such as sharing among agencies; sharing of training materials; of facilities, and by offering interagency training in certain areas of common agency training needs.

We are pursuing many of these avenues now. We believe additional progress can be made to assure us that we are getting a properly trained work force at the least possible cost.

We would be pleased at this time to respond to any question you may have, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF JAMES M. H. GREGG

Associate Director
Workforce Effectiveness and Development
Office of Personnel Management
Before The Committee on Appropriations of
The United States Senate on
Training in The Federal Government

I want to thank the Committee for this opportunity to testify about Federal training. We in the Office of Personnel Management consider training as one of the important personnel functions.

Training in the Federal Service is primarily governed by the Government Employees Training Act of 1958: Title 5, United States Code, Chapter 41. The Training Act assigns training responsibility for employee training and development to the heads of Federal departments and agencies and they, in turn, have delegated decision making on training matters to their operating managers. These are the officials who are responsible for the work of their agencies and are in the best position to ensure that training is used to support program requirements. The Office of Personnel Management's responsibility under the Training Act is to provide policy direction, oversight, and to assist agencies improve their internal training programs. Our guidance applying to the training of all civilian government employees is contained in the Federal Personnel Manual (FPM) Chapter 410. We also have two specialized chapters in the FPM which provide guidance on the development of first-level supervisors, Chapter 411, and managers and executives, Chapter 412. In addition, there are linkages to training in various chapters such as guidance on the training and development of management officials to carry out their performance appraisal, merit pay, EEO, and other personnel responsibilities.

I want to point out at the outset that the Training Act provides agencies a very valuable tool and the necessary support to provide efficient, effective government services. The Act's provisions and OPM's regulations direct management to provide training to improve individual employees job-related skills and knowledge in order to improve the overall performance of government. It is these individual decisions and actions between the employees and their supervisors which, when combined, will result in better and more efficient services being provided to the public. Training, when properly planned and conducted not only improves government operations and services, but also contributes to the reduction of waste and inefficiency. With this backdrop, let me proceed to discuss the status of training in the Federal Government.

Our latest published report on Employee Training in the Federal Service covers Fiscal Year 1979; however, we have compiled some preliminary figures from the FY-1980 data for this testimony to try to give you the most current information we have. In FY-1980 government agencies provided their civilian employees almost 827,000 instances of training; that is, training which lasted eight or more hours in each instance. This training cost $327 million, which includes the cost of agencies' internal training staffs and the cost of training services

which were obtained from sources such as private sector firms, colleges, universities, and other agencies that provide interagency training on a reimbursable basis. The average hourly cost for this training was $9.76 per trainee hour. When trainee salaries are included, the FY-1980 costs were $686 million and cost on-the-average of $20.48 per trainee hour provided.

Looking at the trend of Federal civilian training, the number of training instances have been declining since FY-1976 when 958,000 training instances were provided. Compared to the 827,000 figure in FY-1980, during the four-year period there was a decrease of about 131,000 training instances or nearly a 14% decline. In the same period, the cost of training jumped $89 million or a little more than 27%. It is obvious from these figures that inflation has taken its toll in Federal training as well as all other aspects of our economic life. The situation has been a decline in the amount of Federal workforce training while at the same time, the Federal workforce remained level.

The amount of training provided Federal employees varies between departments and agencies for a number of reasons. First, training is essential to help employees keep up with the state-of-the-art in their technical fields. Changes in medicine, data processing, and weapon systems are a few of the more obvious, rapidly changing fields. The effect of changes of this sort vary from agency to agency depending on missions. Second, agency employees have to be trained to respond to changes in the law and to new legislation.

Third, all agencies need to provide training for their employees in areas affecting all government employees such as the Civil Service Reform Act. Without training, such initiatives would be impossible to carry out. The same applies to governmentwide requirements such as affirmative action. Training for supervisors and managers in their EEO responsibilities has been a key factor in the progress the government has made in improving opportunities for women and minorities.

I view training as a long term investment and the operating managers in government are accountable to see that their employees are adequately trained to perform their present and future responsibilities. These employees, in turn, must do their part to apply this learning in the workplace in order for the government to progress. Employees also have a responsibility for their own self-development and careers. I believe government managers have to make maximum use of on-the-job developmental experiences to enhance and broaden their employees' skills. These experiences involve on-the-job training to improve the employee's ability to perform their present responsibilities or rotational assignments to acquire skills beyond their current jobs. Details to other positions, special taskforces, and other similar experiences are additional methods for employee development

The Civil Service Reform Act (CSRA) in Section 4302 established the linkage between training and performance appraisal. Each agency is required to use the results of individual performance appraisals as one of the factors in making training decisions. We now have a situation where training decisions can be related directly to individual performance and can be made to meet work-related needs which benefit the organization. After October, 1981 performance elements and standards will be required for all employees covered by CSRA.

At that time supervisors will for the first time have more precise information on what employees are expected to do and will subsequently be able to measure how well they performed. The appraisal process will surface skill and knowledge deficiencies and will allow supervisors to make better decisions on which of these deficiencies can be corrected by training. This information will also be invaluable to agency training officials in their efforts to help agency management solve problems, improve organizational performance, and bring about change.

CSRA also recognized the key role Federal managers and executives play in improving government services. Training and other development opportunities were identified as the major means to improve the quality of the management and executive cadre to bring about the changes in government envisioned by the Congress. In our direction and guidance to implement the Act, we have placed great emphasis on training and development of the agencies' management teams. We have also conducted research and identified six managerial competencies which are required of Federal executives. These have been provided to agencies for use in their executive development programs. We have also made major changes in our own OPM interagency executive training provided through our Federal Executive Institute, our three Executive Seminar Centers, and in our ten regional interagency training programs. Our courses and seminars now cover the six managerial competency areas identified in our research. In addition, we provide agencies technical assistance to help them develop their managerial and executive development systems. We are now giving heavy emphasis to making better use of on-the-job developmental experiences such as rotational assignments in executive development programs. We believe this approach is more cost effective and realistic because the future executive learns new skills and at the same time learns how to get things done in the agency's work environment. Formal training should be used to supplement the executive's developmental needs where training is more cost effective than on-the-job learning.

Training is one of the best tools we have to reduce or eliminate waste in the government. Most studies of waste, fraud, and abuse in the government point to the greatest saving being possible in areas where changes could be made to improve the way government services are provided or administered. Necessary changes in these operations often require improving the individual worker's skills, improving the work methods, procedures and systems, or by introducing more cost/effective technologies. These avenues for improved government services often result in a need for training. Some examples may best illustrate this point. Training supervisors in labor-management relations and in other personnel responsibilities more than pays for the cost of training by avoiding costly mistakes which could result in many lost staff hours in grievances, appeals, and litigation. Training employees to perform their duties correctly eliminates waste in terms of mistakes that have to be corrected and as well, results in more effective services to the taxpayers. Equipping supervisors and managers with the skills necessary to examine workflow and procedures can lead to consolidation of activities and elimination of duplicative effort. Highly trained systems and program analysts can better identify cost saving approaches at the work unit level and above. Training public contact employees to improve their communications and interpersonal skills can help ensure proper and timely service to the public. Training of agency officials in workforce analysis and planning can eliminate immediate and longer range staffing problems. Training of all employees on their responsibilities to improve

efficiency and eliminate waste and fraud can improve the quality and economy of services and restore the public's confidence.

We in OPM are working with the Federal training community to identify ways to improve agency internal training programs. The agency training directors have a forum called the Interagency Advisory Group (IAG) Committee on Development and Training which undertakes joint efforts aimed at sharing training information and resources to reduce training costs. The Committee recently established a workgroup to develop a set of model training organizations which agencies can use to improve their own training programs and the efficiency of their operations. We expect this group over a period of time to develop specific recommendations to improve the training function. We are also encouraging agencies to share their resources: to open their internal training to employees in other agencies; to loan their equipment and facilities to other agencies; and to share their course materials, staff expertise, and knowledge with others. We encourage small agency training officers who have limited resources to share among themselves and to draw on the resources of the larger agencies. We support forums which are looking for ways to make better use of technologies such as computer-based instruction and telecommunications as ways to reduce the cost of government training. We share information throughout the Federal training community on ways to improve their training and reduce their costs. In addition, we provide direct technical assistance to agencies to help them solve training problems. Since we have limited staff resources for such undertakings, we respond to situations where our assistance is combined with agencies' training staffs so we can leave behind expertise that can be used to solve similar problems. We also look for opportunities where assistance provided one agency will result in products which can be used by other agencies. We respond to assistance requests where sizeable cost savings will accrue as a result of our help. A project we now have underway with the Federal Aviation Administration (FAA) will result in that agency reducing a present three-week residential management development course by a full week. Two weeks of the course will continue to be conducted in residence in Lawton, Oklahoma and the other week will be self-study and done at home or in the office. This change will save one week of food and lodging charges for all the students who will attend this course in the future.

Agencies in Washington and the regions are joining together to jointly fund and conduct common training in order to reduce duplication and reduce costs. OPM and the IAG training directors hold workshops aimed at improving the skills and knowledge of agency training staffs. The agency training directors plan to hold a conference this fall which will focus on ways to reduce the cost of training and to help agency management solve the problems involved in reducing the size of government. We also encourage agencies with governmentwide mission responsibilities to provide interagency training for all government employees.

The most recent entry into governmentwide interagency training was the General Services Administration (GSA) which will provide much-needed training in government travel, procurement, and records and information management. The Federal Law Enforcement Training Center is another example of how agencies can significantly reduce their training costs by pooling their training resources. The Office of Personnel Management also provides a wide range of interagency training for supervisors and managers, personnelists,

management and program analysts, accountants, budget officials, and others in governmentwide career fields where it is more cost effective to provide training through a central agency source rather than each agency attempting to provide this training. In these situations where interagency training is feasible, the economies of scale and specialization in such ventures result in this training being provided at lower cost per student hour than internal agency or non-government training (interagency, $7.57 per student hour, non-government, $9.55 and internal, $10.41 per hour).

Apart from the vital roles of training I have already mentioned, I believe the need for training will be critical in the months and years ahead as the Congress and the President implement the public mandate of a leaner and more responsive government. We are moving in the direction of fewer civilian Federal employees, and with training's help, a more capable workforce. The Administration's goal is to make these reductions with the minimum negative impact on existing employees. However, these reductions may result in a need for some remaining employees to acquire new work skills and knowledge. The kinds of changes in the operation of government that are now moving through Congress will undoubtably cause shifts in the workforce and result in needed training. Further, the kinds of fund reductions in the offing will force Federal management officials to move more quickly toward the introduction of technology in the workplace where these changes will result in savings to the government. In addition, managers will have to undergo a change in philosophy; that is, from a posture of growth where funds and staff are readily available to a posture of care where we must get the work done wth fewer staff and fewer dollars.

Cutback management is destined to change the way the Federal Government operates. Training, along with other personnel management tools, will be vital if we in the Executive Branch and Congress are to achieve our goals.

Thank you for this opportunity to speak for Federal training. I welcome any questions you may have.

COMPARATIVE COSTS IN AGENCY TRAINING SYSTEMS

Chairman HATFIELD. Mr. Gregg, as I understand, your agency has been offered some data on comparative cost between agency training systems, interagency training programs and nongovernment training programs, with the interagency training programs coming out most cost-effective; is that correct?

Mr. GREGG. Yes, that is correct.

INTERAGENCY TRAINING PROGRAMS

Chairman HATFIELD. I understand further, Mr. Gregg—and correct me if I am in error—that only about 9 percent of the training budget last year was earmarked or directed toward interagency training programs.

Mr. GREGG. That is correct.

Chairman HATFIELD. Why hasn't more emphasis been given to interagency training programs if it has proven to be more cost-effective?

Mr. GREGG. I believe, Mr. Chairman, that the reason our interagency training is more cost-effective is that it is directed to broad functional areas of need in the Federal work force; for example, personnel specialists, budget analysis, ADP personnel. Therefore, we have a very large population of Federal employees that are candidates for that training.

Consequently, we are, in our interagency facilities, able to operate on a scale that enables us to be more efficient. We are able to keep our classrooms full more of the time. We are able to develop training that tends to have a longer lifetime.

Individual agencies, in developing their own training, have to more custom-tailor their training to their particular programmatic interests. They may not have the same breadth of population drawing on that training that we do in the interagency training area.

I would say, however, that as the budgets have gotten tighter, we have seen reductions in other areas of training, but the interagency training participation has remained pretty constant over the last 4 or 5 years. So I think that is a reflection of the agencies being aware that, at least in certain areas of training, it is more efficient to use our interagency facilities than develop their own training.

RESISTANCE BY AGENCIES TO INTERAGENCY TRAINING PROGRAMS

Chairman HATFIELD. Do you sense a resistance within the agencies toward interagency training programs?

Mr. GREGG. No, I don't. I think they have been quite receptive to the interagency training that we have offered. However, as I indicated, we are not able to provide centrally for very specific programmatic training that the agency may need itself. But in areas in which we do train, we have had very good participation by the agency.

As I say, it has been sustained even during a period of tight budgets.

DUPLICATIONS IN TRAINING PROGRAMS

Chairman HATFIELD. If you discover duplications, say, in agency training programs, do you have authority to require a cessation of that kind of training program and moving to an interagency training program?

Mr. GREGG. I don't know that we have legal authority to directly order that; however, we do have general responsibilities under the Training Act and Executive order issued under the Training Act to coordinate Federal training. Our experience has been that when we identify situations like that, the agencies are quite willing to work with us to try to reduce duplication;

We haven't found duplication to be a serious problem. We have a training community in the Federal Government that does a great deal of sharing of training materials and facilities among themselves. Almost all agencies, for example, admit, on a space-available basis, other agency personnel, even in their own internal training.

Chairman HATFIELD. Do you feel the Training Act of 1958 has a built-in bias, preference, or such, in agency training programs?

Mr. GREGG. As compared to interagency training?

Chairman HATFIELD. Yes.

Mr. GREGG. No, I don't believe there is such a bias.

Chairman HATFIELD. You don't consider that that, in any way, indicates preference?

Mr. GREGG. I don't think it represents any bias or preference for that type of training.

COST OF IN-HOUSE AGENCY TRAINING PROGRAMS

Chairman HATFIELD. Could you briefly tell me why in-house agency training programs are more expensive than nongovernment programs for training?

Mr. GREGG. I could tell you in general terms why that is the case. Perhaps Mr. Loftis might want to comment on that. They are not widely different, but it is a greater cost.

I think some of the factors that were mentioned earlier in comparing interagency training with internal agency training. The factors that account for the relative high cost of internal training includes designing the training for some specific programmatic need. This tends to make the cost higher in both interagency and external training.

Chairman HATFIELD. Before you respond, just to make the record complete, here, let me cite the comparative figures that I have, so if they are correct, we will have the base for the record.

My figures are that there is a $7.57 per hour cost for interagency. These are averages in training; $10.41 for in-house and $9.55 for nongovernment. These are per hour, average costs for training.

Are those fairly accurate?

Mr. GREGG. Those are; yes, sir.

Chairman HATFIELD. So as you say, there isn't that much differential between the in-house agency, and the nongovernment, from $10.41 to $9.55, but there is the significant difference for the interagency cost savings. I would be very happy to hear from Mr. Loftis.

Mr. LOFTIS. Mr. Chairman, I think that part of the difference is that throughout the extent of nongovernment training you have a profit factor in there that you don't have in interagency training.

Interagency training is reimbursible, but it is only on a break-even basis. So that, to some extent, accounts for the difference between interagency and nongovernment.

I think when you look at the internal agency training, the trainers within the agency provide services—they are not just doing training delivery such as interagency and nongovernment sources are; they have to provide the full range of service for the agency managers which includes working with the managers in needs determination and in doing follow-on evaluation of the training; and all of those management services that these two other sources don't have to provide.

Chairman HATFIELD. Thank you.

Any other questions to be asked of the witnesses, Senator Stennis?

Senator STENNIS. Mr. Chairman, I have a brief statement here. I am very glad you are holding these hearings. It gives me a better picture of

being brought up to date. I used to encourage—by the way, what department are you gentlemen from?

Mr. GREGG. The Office of Personnel Management, Senator Stennis.

Senator STENNIS. I used to try to encourage the uniformed side of the military to center on this more, but they move around so much. [Laughter.]

They move around so much, you know.

I thought they didn't give enough emphasis to training in careers. In some high-level departments that they could create, they could save money, but I found out that a lot of problems go with it. It doesn't show on the surface. I want to learn more about it in these hearings. I commend you and Senator Proxmire highly for holding them. May I put that statement in the record?

Chairman HATFIELD. We will put your statement in the record, Senator Stennis, and we appreciate your interest in so many parts of this committee's activity.

[The statement follows:]

PREPARED STATEMENT OF HON. JOHN C. STENNIS, U.S. SENATOR FROM MISSISSIPPI

I want to commend you and Senator Proxmire for your initiative in arranging these hearings in preparation for the markups of the fiscal year 1982 appropriation bills. I believe it is important that we take a look into the area of wasteful government spending. As the chairman knows, there is no specific item in the budget bearing the label "waste". If it were, it would surely be eliminated. Our problem is to examine, detect, and take decisive actions against waste and extravagance. As I emphasized before the Senate when we began debate on the Department of Defense authorization bill for fiscal year 1982, more than ever there must be frugality in government spending. We've got to take a practical approach to government programs—in particular, military programs, which represent a sizeable portion of government spending. Duplication of effort, wasteful practices, misuse of travel, training, and consultant services is an area that should be looked at very closely, in defense as well as the entire government. The American people will demand that we do no less than hold a close examination of each government program to eliminate wasteful spending.

I am encouraged by the chairman's initiative in this area and pledge my support to join him in his preparation for consideration of the appropriation bills.

Chairman HATFIELD. There has been no more faithful person to attend hearing after hearing and session after session than the Senator from Mississippi.

Senator STENNIS. We hear a lot about the guns that fire and weapons that shoot. We need this weaponry of a little prudence and management.

Chairman HATFIELD. I want to thank you gentlemen again, especially for your fine testimony, and for your patience in waiting us out at this ungodly hour.

COMMITTEE RECESS

The committee will stand in recess until the call of the Chair.

[Whereupon, at 1:39 p.m., Wednesday, June 24, the committee was recessed to reconvene at the call of the Chair.]

WASTE, FRAUD, AND ABUSE IN FEDERAL SPENDING

THURSDAY, JULY 9, 1981

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The committee met at 10:05 a.m., in room 1114, Everett McKinley Dirksen Senate Office Building, Hon. Mark O. Hatfield (chairman) presiding.

Present: Senators Hatfield, Schmitt, Andrews, Abdnor, Kasten, Mattingly, Rudman, Proxmire, Stennis, Huddleston, and Bumpers.

COMMITTEE ON APPROPRIATIONS

PROBLEMS AND REFORMS IN MAJOR SYSTEMS PROCUREMENT—DEPARTMENT OF DEFENSE

STATEMENT OF HON. FRANK C. CARLUCCI, DEPUTY SECRETARY OF DEFENSE, THE DEPARTMENT OF DEFENSE

ACCOMPANIED BY:

RICHARD D. DeLAUER, UNDER SECRETARY OF DEFENSE FOR RESEARCH AND ENGINEERING

ROBERT F. TRIMBLE, DIRECTOR, CONTRACTS AND SYSTEMS ACQUISITION

JACK R. BORSTING, ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

HEARING PROCEDURE

Chairman HATFIELD. The hearing will come to order.

I would like to welcome members of the Committee on Appropriations and our witnesses to this hearing. This is the second in a series to explore waste in Federal spending; 2 weeks ago, the committee heard testimony on Government travel, training and the use of consultants. Today begins the committee's examination of procurement of major systems and equipment by the Federal Government.

Senator Proxmire, our ranking minority member, and I have arranged these hearings to aid the committee in the upcoming markups on fiscal year 1982 general appropriations bills. We begin our examination of procurement practices by focusing today on the Department of Defense. Later on in the month, the second half of this hearing will address acquisition of major systems in other departments of the government.

CRITICALITY AND EXPENSE OF ACQUISITIONS

Acquisition is one of the most critical and expensive functions performed by the Government. GAO reports that, as of September 30, 1980, 1,040 major acquisitions were in progress, costing approximately $777 billion at completion. Department of Defense acquisitions for the procurement of major weapons systems compose the largest share of this expenditure, with cost estimates projected at $437 billion by completion.

However, if historical patterns continue, that defense estimate is grossly understated. For, over the past years, cost growth in our major weapons systems has grown out of control. I would like to draw your attention to the charts behind me to illustrate this significant problem.

UNIT COST GROWTH FOR WEAPONS SYSTEMS

The first, to my right, shows the unit cost growth for a wide range of Army, Navy, and Air Force weapons systems over the course of a single year.

The chart compares the costs of fiscal year 1982, as they were projected in 1980 against those same projections in March of this year. Also included is the percent increase in unit costs and the added growth in expense.

I would note here that these figures do not include inflation to any significant extent. Both the Carter projection of 1981 and the Reagan projection of 1982 included inflation. Let me underscore "included inflation." The difference in those inflation figures is insignificant over the 5-year spreadout period of the program. That fact makes the figures on this table even more astounding.

I cite as an example of the cost growth in 1 year the Blackhawk Army helicopter. Its unit price, despite the same buy size as the previous year—let me underscore the same buy size as the previous year—has increased 49 percent. That means $176 million more was added to the Reagan budget to procure this weapon system. Cost growth in the M–1 tank totals $757 million, or 76 percent in a single year, sans inflation.

LONG TERM MAGNITUDE OF COST PATTERNS

The second chart demonstrates the magnitude of this pattern in the long term. Note that the costs are normalized for inflation and production quantities. The pattern is clear, and frankly, frightening. We have selected here costs of the tank and of the fighter. Although there are some exceptions, this same pattern of cost growth generally applies to ships, helicopters, munitions, missiles, et cetera. At the same time we experience this phenomenal cost growth in our weapons systems, we are spending more and more dollars to buy less and less.

To pretend that we can gain control of these spiraling costs without major reform in our process of evaluating and procuring weapons systems is pure fantasy. And it is a fantasy being lived out with devastating consequences to our national interest. For the time is short that

Congress will continue to appropriate these tremendous increases in defense expenditures, independent of results and independent of sound management principles.

The rampant cost increases in these weapon systems are attacking the very foundations of our effort to control Federal spending. Burdensome regulation, lack of competition and little accountability for program costs result in defense expenditures that are out of control. In my view, and I know in the view of some of my colleagues, there is no more vital effort we can undertake in the name of fiscal conservatism than harnessing the cost explosions in weapon systems.

CONTROL OF GROWING GOVERNMENT EXPENDITURES

I would like to emphasize here that this hearing is not a crucifixion exercise. To simply lambast ineffective policies and procedures and punish the actors who carried them out serves little purpose. Rather, this committee is in desperate search of practical, yet innovative ideas to control these growing expenditures throughout the Government. Certainly cost growth is a highly complex and multifaceted problem involving economics, military judgment, and politics. According to the General Accounting Office, blame for that cost growth can be shared by the Department of Defense, industry and Congress. Make no mistake, this committee is serious about implementing major, substantive budgetary reforms in the Department of Defense.

I am reminded of the thousands of hours devoted over the past decades to reforms in defense procurement practices. It was most distressing to ready the recommendations a few days ago of the Defense blue ribbon panel report of 1970 and various congressional hearings dating from the late 1960's which advocated basic reforms in the acquisition process of military weapons. It is an unhappy fact that, in spite of general agreement on particular changes, few have been actually implemented.

If Congress agrees with the administration's recommendation to spend a minimum of $1.46 trillion on defense in the next 5 years, it is even more unconscionable to allow costly inefficiencies to continue. This enormous figure includes absolutely none of the cost overruns portrayed in the chart I have used today.

This morning I am hopeful that we will explore a number of these potential reforms to improve the Federal Government's procurement practices in the Department of Defense. I am particularly interested in focusing on increasing competitive bidding, the use of second sourcing in the procurement of weapon systems, elimination of unnecessary procurement regulations and more realistic cost estimates. Other members, I am sure, will have additional issues to bring before our distinguished group of witnesses.

INTRODUCTION OF WITNESSES

We are pleased that Mr. Frank Carlucci, Deputy Secretary for the Department of Defense, will be testifying before the committee. In addition, Dr. Jacques Gansler, author of the new book "The Defense In-

dustry," and former Deputy Assistant Secretary of Defense for Materials Acquisition will be joining us. Finally, Gen. Alton Slay, who led the Air Force Systems Command for the past 3 years and instituted progressive acquisition reforms, will appear before the committee.

CONGRESSIONAL WITNESSES

OPENING STATEMENTS OF COMMITTEE MEMBERS

Chairman HATFIELD. Before proceeding, Senator Proxmire or other colleagues may have opening statements which they wish to make.

Senator PROXMIRE. Thank you very much, Mr. Chairman.

Mr. Chairman, I again want to congratulate you on this series of hearings. As I indicated before, this is something the committee has not done to this extent. I think it is a most constructive effort.

PROCUREMENT AND MANAGEMENT REFORM

The administration has come forward with a 31-point program of procurement and management reformed, backed by seven overall principles. Let me state at the beginning that no one will be a stronger supporter of procurement or management reforms than this Senator, given the one stipulation that they have a reasonable chance of success.

But reading these specific recommendations, Mr. Carlucci, brings back memories of the past. I might try to put this in perspective and point out throughout our lives we have taken great pride in the remarkable economic production of our great country. For 100 years we have been the preeminent economic power on the face of the Earth. We still are. Our technology leads the world. We have more scientists and engineers by far than other nation in the world. We spend more on research and development than all other nations combined. We have more Nobel prize winning scientists.

In World War II, almost overnight, we converted this massive and peaceful economic machine into the greatest arsenal of military power the world had ever seen. We built a liberty ship a day in World War II. Now it takes us 2 to 3 years to build a similar ship. We now limp along with production levels for military equipment planes and tanks and ships far, far below our potential adversary, the Soviet Union. It may or may not be that, on balance, we have a rough equivalence in military power with the Soviet Union, but they outproduce us in numbers and with respect to some weapon systems—such as tanks—they may even surpass us in quality. A series of brilliant defense officials have tried to overcome this American deficiency. Let me run through the experience quickly. I think we can learn something from our past failure.

OVERCOMING AMERICAN DEFENSE DEFICIENCY

I wonder, Mr. Carlucci, if you remember the 5-year reform package put forward by Secretary McNamara in 1966. He had 29 distinct management reform objectives. He had a permanent cost-reduction pro-

gram. He called for buying only what we need, reviewing unweildy requirements, buying at the lowest sound price, reducing operating costs, streamlining the process of decisionmaking. Many of those suggestions exactly mirror proposals in your 31-point package.

FITZHUGH REPORT

Then we had the Fitzhugh blue ribbon panel report in 1970. It had 35 recommendations for management of material resources. Again the list sounds familiar: reduction of technical risks by improved testing; increased flexibility in acquisition strategies; improved incentives to private contractors; more power to program managers; reduction in the volume of procurement regulations; encouragement of an adequate industrial base. These could have been lifted almost word-for-word from the 31-point program before us today.

MELVIN LAIRD DEFENSE BUDGET

Now let's jump to 1971 and Melvin Laird's budget presentation. He made management and procurement reform a major goal of his administration. I am sure that you remember that his program called for decentralization—giving the military departments a larger role in decisions; more delegation of authority to program managers; cancellation of 435 of 1,227 DOD directives; simplification of directives. Listen to what he said about the acquisition process, and I quote:

> It is not easy to identify all of the reasons for the difficulties now being encountered in the development and procurement of new weapon systems. Frequently more performance was requested than was really needed in a new program. Inadequate allowance too often has been made for trading off some system capabilities or characteristics in order to meet cost targets.

Secretary Laird commissioned Deputy Secretary Clements to review weapons acquisition procedures and come up with detailed recommendations—which he did.

SCHLESINGER BUDGET PROGRAM

Some of the major points of the Clements plan were put into effect under Secretary Schlesinger beginning in 1974. The included early identification of new technology required and setting unit cost targets for affordability; planning for efficient use of the industrial base; weapon systems cost reductions with the high-low mix concept; reducing military specifications; using off-the-shelf components; giving maximum flexibility to contractors; the design-to-cost approaches; fly-before-you-buy; giving more responsibility to program managers.

Secretary Schlesinger said, again I quote:

> Department of Defense has a record of too often adopting new technologies that are insufficiently proven and then having problems in system development which cause unanticipated increases in cost.

He called for placing more emphasis on decreasing the logistic and maintenance support required for advanced systems. He argued that the:

Success of a major weapon systems acquisition program is determined not only by our ability to acquire equipment which meets the stated technical performance objective within planned schedules and costs but also by how effectively the system operates in combat and by its ability to be supported and maintained in the field.

SECRETARY RUMSFELD BUDGET PROGRAM

Then came Secretary Rumsfeld. In January of 1977 he told the Congress that DOD was engaged in a two-level review of its planning processes, including a structural reorganization of the Department. He had 39 projects for management reform involving standardized procedures and maintenance. Thirty-two policy changes were directed for contract administration; more latitude was given the military departments and a new program called milestone 0 was designated to improve procurement practices. The profit 76 report, which was started in 1975, found emphasis under Secretary Rumsfeld who personally pushed for more capital investment by the defense industries. He formed a DOD investment policy study group.

Secretary Rumsfeld testified to Congress that, and I quote, "The Department of Defense is placing new emphasis on production management, particularly for major systems."

SECRETARY BROWN PROGRAM REORGANIZATIONS

And then came Secretary Brown. He said, "I have made organizational arrangements and management reform a matter of priority." Responding to President Carter's 1977 call for a "searching organizational review of DOD," Secretary Brown instituted nine specific reorganizations, with three overall areas of inquiry. He established a Long Range Research and Investment Resource Planning Board, streamlined the DSARC process and reviewed the OMB Circular A-109 requirements.

Now, Mr. Carlucci, I do not cite these historical examples to take away from your efforts. But it does seem to me that you run the risk of ending up just one more procurement reform attempt in a long line. The next administration will call for reform, and the next and the next. It has always been so.

INCREASE CONTRACT COMPETITION

So therefore I would encourage you to concentrate your efforts in one or two areas to make substantial progress in a limited area rather than 31, 39, or 28 reforms. And my recommendation would be to increase competition—the most critical item of the defense procurement cycle, in my opinion, and the one area you fail to address in your 31 points or your prepared remarks today.

I do not understand how this administration, with its emphasis on the marketplace, could fail to place increased competition at the very pinnacle of its reform package for the Pentagon. Nowhere is more competition and the resulting cost savings more necessary. During fiscal year 1980, 43 percent of all DOD purchases were noncompetitive, representing $30.6 billion. The situation for major systems is much worse. That is

the most important challenge you face in procurement reform, for with more competition will come a better product, a more timely product, lower costs and greater overall efficiency.

Thank you, Mr. Chairman.

Chairman HATFIELD. Senator Kasten.

STATEMENT OF SENATOR KASTEN

Senator KASTEN. Thank you, Mr. Chairman.

Mr. Chairman, I commend you for holding these important hearings to examine how Congress can deal with waste and mismanagement in Government. This is a growing problem which can no longer go unchecked, especially at a time when we are cutting substantive programs. Perhaps no area deserves greater scrutiny than the one we are looking at today, procurement practices.

I was unable to attend the earlier hearings you held but I have had the opportunity to review the hearings, and I share the concerns you and other members of this committee expressed in trying to find solutions to this shameful problem of waste, fraud, and abuse. I am frustrated that we can't get a plan to squeeze this excessive and wasteful spending out of Government before it destroys the entire effort to balance the budget and restore economic stability.

Your dedicated leadership, Mr. Chairman, offers hope. My distinguished colleague from Wisconsin, Senator Proxmire, has waged war against waste in Government for years and certainly has effected some change. Yet, waste continues to be rampant. I think there must be a concerted effort, a plan, maybe even a war against waste.

RESPONSIBILITY FOR DEFENSE WASTE RESTS WITH CONGRESS

Congress has to take the ultimate responsibility. We have the constitutional responsibility to control the purse. It seems to me that one of the problems we have is that we must rely on information we get from the executive branch and the independent agencies to make our decisions. Obviously, when we review the information with hindsight, we have to question the validity of that information and the performance of the agencies in managing the taxpayers' money. I simply do not believe Congress can control the problem unless we control those who manage the money.

Earlier this year, I introduced the Waste, Fraud and Abuse Reduction Act of 1981 (S. 1120) in the hope that it might become the framework for cooperation between the Congress and the administration for an all-out assault on this problem. Nineteen other Senators are cosponsors including Senators Proxmire, Schmitt, Andrews, Sasser, and DeConcini from this committee.

In addition, 10 members of the Senate Budget Committee are cosponsors, and it was after considering this bill that the Budget Committee agreed to assume savings of over $7 billion a year for 1983 and 1984 with the savings to come from reductions in waste, fraud, and abuse.

Senator Roth has held one hearing on S. 1120 and I understand he will schedule additional hearings.

President Reagan has properly identified waste, fraud, and abuse as an unrelenting national scandal. He has also made a strong, personal commitment to eliminate it. My concern is that no administration, regardless of the political party, can do the job alone. So I am convinced that Congress must assert its leadership.

Mr. Chairman, I agree with you that this committee must have ultimate control for making the appropriations' decisions. S. 1120 is carefully written to retain that power with this committee. It does provide that other committees, the agencies themselves, and our investigating arms help us get the facts; 2 percent should be set aside for all agencies, then each agency should have to come up with a plan.

As we seek a vehicle, I would commend S. 1120 for your consideration. I would also appreciate your advice and counsel on how this bill might be fine-tuned and strengthened.

I ask, Mr. Chairman, that the balance of my statement explaining how S. 1120 would work be made a part of the record of this hearing.

EXPLANATION OF THE WASTE, FRAUD AND ABUSE REDUCTION ACT OF 1981

The approach is simple.

One, Congress directs the Secretary of the Treasury to withhold from obligation 2 percent of the appropriated funds for each and every agency.

Two, by the start of the fiscal year every agency must submit its plan for reducing waste, fraud, and abuse to Congress.

Three, by the following February 1, each agency must again report to Congress on the effectiveness of its effort. At that time, the agency may apply for release of all or part of the 2-percent money being withheld at Treasury. This report must justify release if the saving are not expected. The report must also outline the savings, impact on programs, alternatives considered, et cetera.

Four, the Government Affairs and Government Operations Committees must then review these agency reports, taking into account GAO reports, inspectors general reports, information from the authorizing committees, and any pertinent public comment. These committees must recommend whether any funds previously withheld in the 2-percent account should be released.

Five, the Appropriations Committees, by joint resolution, must then direct the Secretary of the Treasury as to what moneys are to be released. It is anticipated this action would be completed by July 1 in time for the fourth quarter disbursement, and also in time for the markup of appropriations' bills for the next fiscal year.

It should be noted that it will take positive action by Congress to release any of the money from the 2-percent account.

It is the intent of the legislation that reductions not be made from substantive programs unless waste, fraud, or abuse are involved. It will be the burden of each agency to justify its actions, or lack of actions, to Congress. Only if an agency can demonstrate it has no waste, fraud, or abuse, would it be entitled to a release of any of the withheld funds. Money saved would not be released.

This bill is intended not to infringe upon the normal appropriations process. Also, supplemental appropriations would not be affected.

All agencies will be subject to the same procedures. No longer will Congress have to attempt to front-end meat-axe approaches. Instead, Congress can concentrate on substantive reports in a systematic way.

This legislation asks no more of Federal managers than Congress and the taxpayers have a right to expect. It is up to Congress to tell them in very clear terms what is expected, and then see that those expectations are fulfilled.

As we proceed, I would commend S. 1120 for your consideration. I would also appreciate your advise and counsel on this.

Chairman HATFIELD. Senator Stennis.

STATEMENT OF SENATOR STENNIS

Senator STENNIS. Mr. Chairman, I will take very little time.

I want to commend you for your interest and activity in reviewing the entire problem, the whole subject that has been augmented by time, and it has gotten acute, according to the figures you used. I just want to say it seems to me this matter has gotten to such proportion that we in the legislative branch could almost have a joint action here by the House and Senate committees. It shouldn't make any difference who has the majority in either place. It just requires the impact, to be effective, of the two Houses through their Appropriations Committees, working together. As long as we are not, that there is a break, and it is an opening for not total failure, then we will have far from effective and lasting results.

I think that outstanding men have been in line, considered this issue, and attempted to cope with this problem. Melvin Laird, for instance, you mentioned his name, a former Member of the House, very active in the Appropriations Committee. In the Department of Defense, he was Secretary of Defense a good long while.

I know we have had the president of General Motors talking about the industrialization in the world and we have had the president of General Motors quoted. We had the president of the Ford Motor Co., as the Secretary of Defense at one time. We had the chairman from Hewlett-Packard in California, perhaps in my view the most effective man we have ever had handling the problem. But the problem is still here. I know last year we had a man like Secretary Brown. He was a scholarly man and capable. I thought Mr. Perry was—you just don't find them better in research and development. Fortified by General Slay here, who is the best I have ever seen in uniform in the procurement field. We still have the problem growing bigger and bigger.

So I think we are going to have to have a joint effort, with old-fashioned frugality and things that go with trying to make the dollar go as far as it will go. But there is something here beyond the ordinary.

I have a brief statement here. I am going to work with the committee on this issue. I don't know if you will get to it or not, but procurement problems are not new. I think the chairman will remember we had to go back to the old system in order to keep control of the money. So

our experience points to this dual effort. I hope you will consider trying to work something out with the House committee along that line.

Chairman HATFIELD. Thank you very much, Senator, for your recommendations.

PREPARED STATEMENT

Senator STENNIS. I have a statement here that I will put in the record.

Chairman HATFIELD. It will be received. For any other comments or opening statements, we will reserve a portion in the record for opening statements any Senator wishes to present.

[The statement follows:]

PREPARED STATEMENT OF SENATOR JOHN C. STENNIS

Mr. Chairman, it is particularly a pleasure for me to be here on this second day of hearings which you are holding on the subject of eliminating waste, fraud, and abuse in Government spending. The distinguished witnesses that will appear here today focuses on a portion of Government spending which I have been closely associated with for many years. The enormous requirements to build, man, operate, and maintain an effective defense force is one of the biggest responsibilities that we have as a Government. The topic before us today is most important. There is no doubt that it presents a complex and difficult set of issues which are a challenge to resolve. However, elimination of waste and making a full effort to achieve an efficient procurement process is a necessity, and you and Senator Proxmire are to be commended for your interest and application in this area.

Frugality is more essential now than ever before. The President has called for spending over $1½ trillion over the next 5 years to build up our defense capability, while the Government and the American people are called on to tighten their belts in many other areas. As I have said before the Senate earlier this year, it is my belief that the American people have placed a special trust in the Government that the enormous sum of money which has been budgeted for our military will be wisely used to build a stronger national defense—a defense which will provide the most effective use of their tax dollars. Public support for increased defense spending will not be sustained for the long haul if the Pentagon cannot keep the people's confidence that every dollar is spent responsibly and efficiently.

As an active participant for many years in defense matters, I believe it is a most urgent requirement that we insure that this additional spending does not result in inflated defense costs. This additional money which has been authorized for the military must not turn into higher prices and less strength.

Of great concern to me is manpower—manpower quality; manpower in numbers; manpower to maintain, operate, and provide the battlefield effectiveness that insures the ultimate security for this country. And most important—leadership, spirit, and that special sense of duty and service which I believe achieves a strength beyond what money can buy.

I have read the administration's recommendations for improving the procurement process and believe that you have made a commendable start on the task of solving some of the problems which have operated to the detriment of the procurement process. Mr. Carlucci's April 30 memorandum on "Improving the Acquisition Process" outlines many of these difficulties—such as rising unit costs, uneconomical production rates, and program instability. But identifying the problems, as you well know, must come first but can often be the easier half of the battle. Sometimes the harder part is identifying practical solutions and implementing them quickly and effectively.

One solution which I have heard much about this year is multiyear contracting. I understand that multiyear contracting would involve greater use of existing multiyear contracting mechanisms and more advance procurement of parts and components for end items planned to be procured in later years.

Greater use of multiyear contracting could mean some savings no doubt. However, the Government may assume a greater share of the risk of program instability and it

could be liable for substantial cancellation or termination charges if programs were canceled or reduced. More importantly, multiyear contracting might inhibit competition. Once a multiyear contract is entered, the items to be procured in the out years of the contract would be less likely to be completed. I wonder if in some cases the savings benefits of competition might even be greater than what might accrue from multiyear contracts. I hope that in your remarks today you will address this question and the more general one of whether and where competition would be diminished or enhanced by your planned initiatives to improve the acquisition process.

I can also see that there could be savings in advance purchases of components for future end-items through buying bigger lots of them. But I have been, and continue to be, a strong supporter of the full-funding principle, which Congress first adopted with the 1951 shipbuilding program. It was determined then that full-funding was the best way for Congress and the executive branch to get a handle on the true cost of the procurements it was approving. I think we ought to be very careful before departing from a principle which has served us well in terms of budget discipline. Further erosion of the full-funding concept might turn out to be more costly than anticipated in the long run. I would also like to hear your views of the full-funding principle and how it fits into your plans for tighter budget discipline.

In summary, I would hope that greater use of multiyear procurement would not necessitate the sacrifice of the benefits which might accrue from competition. Nor do I believe that the budget discipline afforded by full-funding should be lightly discarded. I would be interested in whether you considered and plan on a procurement approach which could preserve both of these tenets, such as one where Congress would fully fund a mature and stable procurement program for, let us say, a 3-year increment. Current appropriations law permits the obligation and expenditure of funds appropriated in 1 year over the following 3-year period. Thus, in any year, items to be delivered over the next 3-year period could be appropriated. Under such an approach, the Defense Department might have the most flexibility in terms of competing contracts for these end items. And the full-funding concept might be better preserved.

STATEMENT OF SENATOR HARRISON SCHMITT

Chairman HATFIELD. Senator Schmitt.

Senator SCHMITT. Mr. Chairman, I join with my colleagues in commending you and others for seeing that these hearings take place. In many other contexts I have noted that as a result of problems that are so graphically illustrated by the chart behind the committee and by your statement a great number of people in and out of Government are losing confidence in our ability to use the technological proceeds this country has. Because it takes three and four times longer to get systems produced than it used to and because the cost is unpredictable, the reluctance to enter into these new systems that clearly would be beneficial to our national defense as well as other areas of national activity is growing. So by the problems we have created for ourselves, we are clearly inhibiting the opportunities to go forward not only to preserve peace but also the confidence in the ability of our systems. Unless we do something, the intelligence community, the defense community, the space community, everyone will continue to suffer from the same disease, whatever the disease is. Hopefully these hearings will help us diagnose the disease and find a cure.

Chairman HATFIELD. Thank you, Senator.

DEPARTMENT OF DEFENSE

DEPUTY SECRETARY OF DEFENSE

PREPARED STATEMENT

Chairman HATFIELD. Mr. Secretary, if you will present your colleagues, we have your full statement and it will be made a part of the record. You may handle it any way you prefer.

[The statement follows:]

PREPARED STATEMENT OF HON. FRANK C. CARLUCCI

DEPUTY SECRETARY OF DEFENSE

Progress in Improving Acquisition

Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to discuss our progress on improving the acquisition process. As you may already know, the Defense acquisition process has been under intense scrutiny since early March. This massive effort employed the full time of many of our acquisition experts and culminated in my April 30 direction to change the way we do business. We are well underway at this point. What I have asked for is not new. It has been studied almost to death. All we are trying to do is implement good business management throughout the Department of Defense from the top down.

Management teams at both the OSD and Service levels have been established. The overall responsiblity for implementing our new initiatives rests with Dr. Dick DeLauer, the Under Secretary of Defense for Research and Engineering.

I have submitted, for the record, my April 30 memo, which outlines our initiatives in detail. An examination of my memo will show that we have classified our initiatives into near-term and long-term categories -- into initiatives that we can implement and initiatives that will require OMB or Congressional action. Of the 31 initiatives, 17 are short-term. We should be able to meet these objectives within one year. The remaining 14 are longer term initiatives. While most of the initiatives can be implemented from within the Department of Defense, nine will require OMB or Congressional action for implementation.

I am pleased to report to you that we are making progress in all categories. Looking first at the nine which involve OMB or Congress I am happy to say that the record looks good. Six of these nine will require Congressional action. On five of these six there

have been proposals by at least one Committee in the Congress. These four are:

- Multi-year Procurement
- Encouraging Capital Investment
- Reducing Administrative Costs and Time
- Governmental Programs

We are currently reviewing Government programs that affect the acquisition process. While not critical of the objectives of these programs, we believe that a number should be analyzed to determine how we can reduce their impact on the efficiency of our contracting procedures. Pending the outcome of these reviews, we may seek legislative relief. The Acts that are involved include Walsh-Healey, contract work hours, Service contract, and the Armed Service Procurements Act.

In both the Senate and House much of this support has come from the Armed Services Committees. I strongly urge you to support the work done by these Committees to date. We are opposed to the amendment proposed by the House Government Operations Committee. That Committee has deleted almost all the legislation initiated by the House Armed Services Committee in favor of a proposed series of test programs that could run for years before the legislation we need is passed. In addition, more legislative initiatives will be needed to fully implement some of our programs. Reducing Government legislation related to acquisition, for example, will eventually require sweeping changes of existing laws to be fully implemented. Although some legislation in this direction has been proposed, no effort of the magnitude envisioned in the management initiative has been started yet.

One initiative -- that dealing with funding flexibility -- will require at least the consent of the four key Defense Oversight Committees, if not legislation. No concrete action has been taken on this to date by Congress.

This brings me to the twenty-two initiatives we believe we can implement within the DoD. Thirteen, we believe can be implemented within one year. Implementation has already begun on these. Some are easier than others. For example, in the acquisition process, we used to require that a Defense System Acquisition Review Council (DSARC) decide whether to continue the acquisition of a particular system at various stages during its development. Some of these DSARCs were unnecessary and only delayed the system. We are now changing our DSARC process. The Services have been relieved of a number of the more unnecessary DSARCs already. Other initiatives will require the summer's funding cycle to run its course before we can say we've done our job. Initiatives like front-end funding for test hardware and budgeting to most likely costs, require a budgeting cycle to run its course for implementation to take place.

The nine remaining initiatives are long-term initiatives. Again, some of these are tied to the budget cycles or to programmatic cycles. Initiatives like budgeting funds for Technological Risk and Assuring Appropriate Contract Types require programs to run their course before being fully put into effect. On these we are stressing the need to integrate these new initiatives into long-range planning.

As I said earlier, I believe that implementation is the key to changing the Acquisition Process. Accordingly, I receive a monthly status report from Dr. DeLauer on this effort. I'm glad to say, however, that Dick DeLauer has at one time or the other studied almost all of these initiatives as a part of his work with various government and industry study groups and agrees with me that we have had enough studies. Now it's time to act. Two areas where we are making progress in implementation are: multi-year contracting and improving the connection between the acquisition process and the Planning, Programming, and Budgeting System.

We are handling multi-year procurement on a case-by-case basis. Currently, we are working with the Services to nominate apppropriate candidate programs for submission to Congress in the normal budgeting process. As you know, Mr. Weinberger testified on June 23 on behalf

of HR 3519. If the cancellation ceiling is lifted, as provided for in HR 3519, we could start saving substantial sums by making selective multi-year applications.

We have revised our directives to eliminate confusion between the acquisition process and the PPBS. As a result, the systems we buy will be more directly related to the plans and policies they support.

Efficiencies and Economies

Another area we are working hard at within the Defense Department is to eliminate waste and improve cost effectiveness. The Secretary and I share a steadfast commitment to this. We demonstrated that commitment, I believe, shortly after we assumed our responsibilities during our initial assessment of defense budgetary needs.

As you are well aware, the Administration substantially revised the Department of Defense budgets for FY 1981 and FY 1982 in a matter of weeks. During that process we took a number of actions which together will produce savings of $3.2 billion in FY 1981 and FY 1982 outlays. Aside from pay adjustments, we made more than 50 specific program reductions besides cuts in a number of other operations and procurement programs. We will continue to press for additional savings in these areas as we look to detailed review of the FY 1983-87 programs and development of the FY 1983 budget request.

The work of revising the FY 1981-82 budgets was an item of the highest importance. But at the same time that was going on, the Secretary and I also reviewed the entire DoD PPBS as well as the acquisition process. The specifics of our decisions on these two reviews are discussed elsewhere in this statement and have been made available to you. But in the context of testimony today, I want to stress that these two reviews demonstrate the Secretary's personal concern with and emphasis on improving management systems as a principal means of making defense operations more efficient.

In addition to our focus on budget needs, and our reviews of the PPBS and the acquisition process, we have also been studying a number of suggestions from outside the Department for improving defense operations within it. The Comptroller General, the Congressional Budget Office, and individual members of Congress, among others, have provided us thoughts and proposals. Former Comptroller General Staats, for example, presented 15 agenda items for consideration. The Congressional Budget Office outlined 15 "illustrative examples" of possible defense savings among 105 such examples in its study "Reducing the Federal Budget: Strategies and Examples, FY 1982-1986."

We decided to review these proposals by assigning each one to a primary office within the Department. That office was responsible for reviewing the proposal and suggesting a course of action. The Secretary and I then reviewed these suggestions.

Secretary Weinberger and I have personally reviewed the 15 agenda items proposed by Comptroller General Staats on January 21, 1981 and the 15 possible actions proposed by the Congressional Budget Office in February 1981. Of the 15 GAO items, we accepted 11 or asked that option papers be developed. We are going to study two items further, and we did not accept two items. Of the 15 CBO proposals, we approved action on seven, we propose to study four further, and we did not accept four. We then asked the Military Departments and others concerned to provide further views on these items since a number of them represent a significant departure from current practices. We expect to announce the results of our review of the GAO/CBO items after consideration of the Services' viewpoints later this month (July).

On the subject of our review of possible efficiencies and economies, I want to focus for a moment on two related issues: savings and the speed with which actions can be undertaken. In some cases the GAO and CBO proposals have been reviewed in the past by DoD but not accepted. The Secretary and I are not willing to halt a review just because "it's been studied before." At the same time,

before making a decision, I want to listen to the points of view of those competent to judge the question, and I need to hear from those in particular who must live with the decision as it affects their responsibilities. All of this takes time.

Several of GAO's proposals in the logistics area are, for example, extremely controversial. We are now reviewing further consolidations of supply operations and the possible use of a single manager for aeronautical depot maintenance. We have already received a report on the FY 1982 Authorization Bill from the House Armed Services Committee expressing concern and urging further caution in moving ahead in these areas. In other cases, we find GAO proposals immediately agreeable or else parallel to our own. The GAO's call for more multiyear procurement is an example of the latter. But we need to develop specifics, approve them internally, and present them to Congress for consideration.

I should mention, however, that savings from specific actions over the next several months can not be achieved until preparation of the FY 1983 budget or later. Moreover, the nature of some of the actions under consideration and our past experience with these suggest that the near term effect could be to increase costs temporarily even though the eventual result will be longer term savings.

As I said earlier, there have been suggestions for savings other than those which came from the GAO and CBO reviews. The Secretary and I have completed a review of 35 proposals offered by the Republican Study Committee. All of these proposals were drawn from GAO audits. In 25 of the 35 cases, our review indicated that DoD had already accepted the GAO recommendations or, that actions to the same end were under way. For example, last year the Air Force redirected its proposed base level computer replacement program along the lines proposed by GAO, and we already are moving to make better use of spare parts inventories as the GAO suggests. In 10 cases we agreed with past positions which rejected GAO recommendations.

Many of these proposed "savings" also were of the cost avoidance type. The amounts were never in the DoD budget to begin with, so that accepting GAO recommendations did not lead to savings from existing or projected defense budgets. Here again, we have referred the results of our review to the Departments concerned for their final consideration. We expect to have the results of this review available for the Committee and others before the end of July.

Our review of the older audit findings which were forwarded by the Republican Study Committee served several purposes:

First, it gave us an opportunity to check the status of a number of audit recommendations. As I noted earlier, we found something was already being done in those cases where the Department had committed itself to take action. Thus, I was reassured to learn that we had been following up on audit findings.

Second, I think it is fair to say that our audit followup system itself needs additional effort. I'm not satisfied yet that we are able to develop or articulate our position on audit findings as promptly or as effectively as we might like. The Department approved new audit followup procedures this past January and implementing these procedures will surely help.

I also want to note that Secretary Weinberger has appointed Mr. Joseph Sherick as Assistant to the Secretary of Defense (Review and Oversight); to serve as his principal advisor and assistant for matters related to combating fraud, waste, and abuse in DoD programs and operations. This is a new position and its establishment reflects the seriousness with which we regard this issue. He will also be the DoD representative on the President's Council on Integrity and Efficiency. In carrying out his responsibilities, among other things, the ATSD(R&O) is charged to: monitor and evaluate the adherence of DoD Components to internal audit, contract audit, and internal review principles, policies, and procedures. He will also:

-- Identify instances of non-compliance and recommend appropriate actions to Secretary Weinberger or the responsible DoD Component head.

-- Develop policy, evaluate program performance, and monitor followup actions taken in response to GAO audit, internal audit, contract audit, and internal review reports; and

-- Identify cases in which audit recommendations that can improve the economy of programs have been ignored and recommend corrective action to the Secretary or the responsible DoD component head.

We believe more effective audit followup will greatly enhance our ability to make defense operations more efficient.

Improvements in the Budgeting and Planning Processes

We are also looking to improvements in the budgeting and planning processes to make the Defense Department more efficient.

Improved Program Review Process

As you know, Mr. Weinberger and I believe that the Department can also be made more effective in using its resources if the program review process is improved. To this end we have:

-- Streamlined the program review process.
-- Strengthened long-range planning.
-- Initiated performance reviews.
-- Clarified the responsibilities of the Service Secretaries and the OSD staff.

Streamlining Program Review

When we took office, we discovered that thousands of pages of documentation were being submitted as part of the annual program review process. I set a goal of reducing the documentation associated with program review by 50 percent. We have met that goal and more. The submissions this summer, while considerably fewer in pages than last year's proposals, still provide adequate information

to accomplish the major priority and cross-Service review that we require.

Strengthening Long-Range Planning

We also discovered when we took office that the Department needed a better long-range planning process to guide program preparation and decisions. The strengthened long-range planning process is being led by the Under Secretary for Policy, with contributions from the Joint Chiefs of Staff, the Services, and members of the OSD staff.

We recognize that nearly two decades of underinvestment in U.S. capabilities cannot be repaired at once and that study is required. We also recognize that traditional answers to what is "required" -- in numbers and types of weapons systems and in roles and missions -- may not be adequate. Formulating answers, and providing the guidance for steady development of a well thought out defense program is the goal of our strengthened planning process.

The Secretary's Performance Review

Good planning and good programming will not by themselves ensure that the nation's defense requirements are met in an economical and efficient fashion. Close monitoring of program execution is also required. For this reason, we have established the Secretary's Performance Review.

Our basic approach is adapted from the private sector, where it has worked very well. We focus senior leadership attention on the key problems, issues, and programs through a series of regularly scheduled top-level review sessions chaired by the Secretary or by me. These meetings emphasize measuring progress toward meeting important defense objectives, identifying problems that need to be resolved, and discussing ways that our performance can be improved. This technique allows for personal contact between the Secretary and those who are directly responsible for various critical DoD programs or functional areas. Thus far we have reviewed the Army's manpower

program, the Navy's sealift program and the choice of a missile for the Trident submarine, and the Air Force's airlift and readiness and sustainability. Sessions on a wide range of other major topics are scheduled for the months ahead on a weekly basis.

Clarifying Management Responsibilities

My memorandum to the Department of March 27, 1981, ("Management of the DoD Planning, Programming and Budgeting System") emphasized centralized control of executive policy and more decentralized policy execution. The Secretary, the Chairman of the Joint Chiefs of Staff, the Service Secretaries, and I will concentrate on major policy decisions. The Services will be responsible for the development and execution of the necessary programs and day-to-day workings of the resources under their control. Thus, this Administration intends to strengthen the role of the Service Secretaries, looking to them for the direct supervision of the Military Departments.

With this increased responsibility comes increased accountability. The Secretary's Performance Review is one way to ensure that those who are responsible for a program are fully accountable for its results. We will not hesitate to take corrective action when we find that Service programs are not proceeding according to the Secretary's decisions or Administration policy. We have made it clear to all concerned that "game playing" must end.

It is equally important that the OSD staff renew its attention to policy, planning, and program issues which cut across Service lines, as well as those issues that are of immediate interest to the President and the Secretary of Defense. Specifically, the OSD staff will provide the technical cross-Service and major mission analysis necessary to integrate the capabilities of the Services, and to meet the objectives identified by the President and Congress. I have also directed the OSD staff to work closely with the Services to plan for additional standardization of joint programs and systems.

The final part of our approach is participatory management. Everyone who has a legitimate interest in the outcome of a decision

must participate in that decision. To this end, I have enlarged the Defense Resources Board (DRB) to include the Service Secretaries. This board, which I chair, is the principal governing body for the Department's program review process.

At the same time, I have directed that only major issues be raised before the DRB. Lesser issues will be decided outside the DRB forum by the Services and the OSD staff. I have set up a Program Review Group made up of appointees chosen by each DRB member to cull out minor issues, arrange for agreements reached by consensus, and to assure that efficient staff work is completed to make DRB meetings more effective than in the past. This process, which is now underway, will free the DRB to concentrate on major issues.

Summary of Our Initiatives to Date

We have streamlined the program review process and reorganized the DRB so that the Secretary of Defense, his senior staff, and the Service Secretaries can concentrate on the major issues which face the Department. We have instituted a participatory approach to making decisions that should avoid dwelling unecessarily on what has already been decided, as well as avoid the program instability which results. We have strengthened the long-range planning process to improve the match between the Defense Department's capabilities and the nation's military strategy. And we have changed roles of the OSD staff and the Service Secretaries so that responsibility for our major programs is clear. Taken together, these steps will help us pinpoint and implement the efficiencies and economies we all seek in defense spending.

Using Manpower More Wisely

We are also working on a number of economies and efficiencies in the manpower area. For example, as a way of reducing the demand for military personnel, we are looking into the idea of putting civilians in support jobs now held by military personnel who could then be assigned to combat positions. We have little difficulty finding civilians to work in the Department, and the cost is usually

less to recruit and train civilians for support jobs than for military people who must undergo combat training. If we can put civilians in military support jobs we will help to balance our resources more efficiently.

We are also negotiating with our NATO allies to determine ways they can provide more support for our forces in peace and war. In this way our allies will be taking a larger role in NATO and thus reduce the demand for U.S. military personnel overseas.

We are also looking for ways to reduce the total number of DoD civilians. For example, we are investigating potential investments in labor-saving equipment. We believe that such investment can increase the productivity of work force and, thereby, reduce the need for both military personnel and civilians.

One of the best ways to save money and gain efficiency is through the contracting out program. In this program we review activities of the Department of Defense, that are similar to industrial activities, to determine the most cost-effective way to do the job. The essence of the program is competition -- competition among private contractors and government employees. Typically we find that this competition saves money and improves our operations even in those areas where the government employees win the competition. Our experience shows that about 50 percent of the activities reviewed will be converted to cost-effective contract performance at an estimated savings of $6,000 per space converted. Those functions that stay within the government also yield savings. For every space that is kept, the government saves about $1,000. This program allows us to transfer military personnel from these support functions into positions that are more directly combat related.

The program also takes careful account of the Department's readiness needs, and of course will not contract out activities directly required for national defense needs. About 80 percent of

the Department's commercial and industrial activities fit into this category.

Better Strategic Planning in DoD

Our concern, however, for more effective decision making, and economy will not detract from the attention we must pay to strategic planning. Unhappily, all too little attention had been paid to that in recent years, and the programming process became preeminent. One result was the loss of focus. Another was a drift to micro-management.

Accordingly, Secretary Weinberger and I determined to revitalize and emphasize front-end planning as the sine qua non of an improved system featuring the principles of centralized policy direction, decentralized execution and participatory management. It is our expectation that the revised system will:

-- Help us achieve the integrated and balanced military forces necessary to accomplish our national military strategy.

-- Ensure that we can deter aggression and succeed in combat if deterrence fails.

-- Provide framework necessary to ensure successful attainment of our objectives within national resource limitations.

The improved planning process will contribute to these goals by enhancing cooperation among the Military Services and all components of the Department.

Although we are already using some elements of this new planning process in preparing the FY 1983 budget, it will not be instituted fully until this summer when we initiate planning up front for the FY 1984 program and budget. A concentrated DoD planning process is presently underway which will be made up of three phases which: first, identify capabilities required to achieve U.S. objectives;

second, establish probable resource constraints; and third, direct the application of the resources we have so as to maximize our capabilities and minimize risks to the national security. The third phase will include explicit consideration of any mismatch between our long-range objective strategy and projected capabilities. The process will culminate in January with the publication of a single Department-wide document, The Defense Guidance. This guidance will provide a central strategic planning framework on which all DoD programs will be based.

We intend that the development of the Defense Guidance will be a team effort, engaging the time and talent of the senior leadership of the Department -- the Service Secretaries, the Joint Chiefs of Staff, the Assistant Secretaries of Defense, and the Unified and Specified Commanders. Top Defense leadership, through the medium of the Defense Resources Board, will concentrate on issues which have broad policy, force, program and resource implications; lesser issues, unique to individual Services will normally be left to their determination. The members of the Board will provide the Secretary their best collective judgment on the optimum allocation of resources and the most effective solutions to problems from a national, rather than parochial, point of view.

Another major dividend we expect from the process I have outlined is closer and more active cooperation among the Military Services and all components of the Department. In the decade ahead we face an adversary who funnels an abnormally large portion of his GNP into an aggressive and threatening military machine. We can overcome the resulting imbalance in part through fostering more teamwork among our Military Services and our allies. An underlying principle of the National Security Act, as amended in 1958, was proposed by President Eisenhower as follows:

> ". . . separate ground, sea, and air warfare are gone forever. . .. Our country's security requirements must not be subordinated to outmoded or single-Service concepts of war."

His far-sighted forecast remains true today. The teamwork our military forces require can be developed only through their full participation in the planning process. With that participation, however, comes responsibility, and the Secretary and I shall expect that. We are heartened by the response to our initial Defense Guidance, prepared this spring, and we anticipate continued cost-conscious improvements to our national security posture as we move into the future.

I hope that all of this gives you some idea of what we are doing in the Defense Department to save money and improve the way we do things. We take these matters most seriously, not only because they are important in themselves, but because if we do not act in this area others will do so for us. I realize that there is still room for more improvement, and our efforts in this area have not slackened and shall not in the future. We ask only for your help in some specifics and understanding for what we are doing in general.

Thank you.

INTRODUCTION OF ASSOCIATES

Mr. CARLUCCI. Thank you, Mr. Chairman. I am accompanied by Mr. Richard DeLauer, Under Secretary for Research and Engineering; Mr. Robert Trimble, the Acting Deputy Under Secretary of Defense Director for Acquisition Management; and Mr. Jack Borsting, Assistant Secretary of Defense (Comptroller).

Chairman HATFIELD. We are happy to welcome all of you this morning.

ACTIVITY IN ACQUISITION PROCESS

Mr. CARLUCCI. Mr. Chairman, I have a lengthy statement. I would appreciate your putting it in the record. I won't attempt to go through it all here. Also, I anticipated this hearing would focus on savings other than acquisition. Some areas of activity are included in my statement. I will not attempt to cover them in this brief summary, but I would like to say a word or two about what we are doing on the acquisition process.

I am indeed pleased that you in this committee are taking such a deep interest in this subject. I share fully your concern that it is extremely important for us to get a grip on our spending if we are to bring about the necessary defense growth in the next 5 years. Consequently, one of our first acts in the Department of Defense was to place the acquisition cycle under intense scrutiny. We convened various management teams, worked intensively with them, and came up with the 31 initiatives that Senator Proxmire referred to.

Mr. Chairman, you referred to major reforms. We consider these initiatives major reforms. We consider them a comprehensive program. They do include some of the items that you touched on, such as unnecessary regulations, and realistic cost estimates. I think that is a very fundamental issue that we encompass in our program.

INCREASE IN COMPETITION

Senator Proxmire, we do not have increasing competition as a specific objective because increasing competition has been a consistent goal in the Pentagon, and continues to be a major goal. We did not attempt to rewrite all of our acquisition regulations, and we attempted to pinpoint some areas where we thought we could make major improvements. Indeed, we were following research advice. We did not try to do everything.

However, let me point out the overall goal of the program, the result of the program on which we have embarked, would be, in my judgment, to increase competition. One way to increase competition is to get more firms into the defense contracting business. As this committee is well aware, one of our real problems is the drying up in the defense industrial base. We think that if we can introduce an element of stability, budget stability, into the process, adequate funding at the front end, if we can reduce the burdensome regulations and increase investment in the defense industry, this offers opportunities for additional competition. We welcome the idea of second source income as well. So let me

assure, Senator Proxmire, that the competition is and will continue to be a paramount goal.

STATUS OF INITIATIVES

Of the 31 initiatives that we have begun six require congressional action, four of which are currently under consideration. Those four are multiyear procurement, encouraging capital investment, reducing administrative costs and time—that is a threshold level issue—and governmental programs. The latter means we are reducing various Government programs that affect the acquisition process, and in some of those we may well request some form of legislative relief.

Your colleagues on the Armed Services Committee in both the Senate and House have done some work on this issue. The House Armed Services Committee has introduced some proposals into our authorization bill, as has the Senate Armed Services Committee. I would urge you to support these proposals. I would also urge you to oppose the proposals presently being considered in the House, introduced by the House Government Operations Committee, which vitiates the effect of the House Armed Services' proposals.

In another initiative, one which deals with funding flexibility, approval of four key defense oversight committees is needed, although we do not require legislation. But no action has been taken to date. This is the issue of allowing us to shift some funds from procurement to R. & D. if we find at the last minute that the system is not ready to go into procurement which will allow us the flexibility to do more design work.

Other initiatives we can implement within DOD and are proceeding to do so. Relieving the services of unnecessary defense system acquisition cycle reviews. These are reviews which have proved to be exceedingly burdensome to the program manager. To introduce front-end funding for test hardware and, once again, Mr. Chairman, budgeting to most likely costs.

A final group of initiatives is long term and is thus tied to budget or programmatic cycles which must run their course before the measures have effect. These include technological risk, that is to say, including in the initial funding of enough funds to take into account technological risk as the system goes under development, and assuring appropriate contract types.

Senator Proxmire referred to previous efforts, as did Senator Stennis, in this area. I fully acknowledge these efforts. I think the key to being successful is to make sure we follow through on implementation. We have set up an implementation process under Dr. DeLauer and I feel we are making some progress.

PREVIOUS EFFORTS AS OPPOSED TO CURRENT DIRECTION

I do feel, Senator Proxmire, that there is a difference between what we are doing now and previous efforts, although I am unprepared to admit that efforts by my predecessors and successive Secretaries of Defense have been tainted. Indeed, I think many have resulted in very sig-

nificant improvement. I certainly don't hold out our 31 points to be any panacea, but there are some differences.

One, of course, is the sheer urgency of the task. As the chairman has pointed out, we in this administration believe it is absolutely vital for us to increase our defense capability over a period of time. Trends are clearly running in an adverse direction. If we are not successful at this time we may find our country in serious difficulty in the 1980's. I think this is a view that is widely shared.

Second, we have tried to bring about broad participation in the Defense Department as we develop these initiatives. They do not stream full-blown from the Secretary's brow or my brow or anybody else's brow. They were the result of an intensive dialog with people both within DOD and outside DOD.

The third factor, is the determination of the Congress, as illustrated by these hearings today.

I would encourage you to join with us in trying to make the implementation of these initiatives a success. They are not cast in concrete. We welcome changes. But we do hope we can have your support as we move ahead in what we consider to be a constructive effort.

Thank you, Mr. Chairman.

Chairman HATFIELD. Thank you, Mr. Secretary.

SOLE SOURCING

Mr. Secretary, you touched on this matter both in your oral statement as well as your written statement, relating to sole sourcing. According to Dr. Gansler, over 60 percent of defense dollars go to sole source, that is, a single contract for a given weapons system. Less than 8 percent of defense contracts are awarded exclusively on the basis of competition. Now would you indicate in a little more detail what the Department's plans are or what your policy will be in terms of correcting this situation which, of course, has contributed to the cost overruns, I believe we can conclude as well.

Mr. CARLUCCI. That is certainly one factor that figures into the cost escalation equation.

Mr. Chairman, I don't want to argue over statistics, but our data is somewhat different. I would be glad to submit these figures for the record. Our data indicates that in fiscal year 1980 in the price of technical design competition, 57 percent of our contracts are competitive, and the figure for the first half of 1981 has gone up to 69 percent. This, of course, includes follow-on contracts, and there may be some differences in definition here.

SUBCONTRACTS

We should also take a look at subcontracts. A large number of subcontracts are competitive. We estimate that our contractors, including those awarded noncompetitive contracts, comprise 16 percent of the prime contract in making awards to subcontractors.

We are very much in favor of competitive bidding, and we want to introduce as much competition into the process as we possibly can. We,

of course, run up against problems when there aren't enough contractors. How many contractors, for example, can build a nuclear carrier or a Trident submarine? This is one of the really critical issues that our country faces. As I said earlier, I think if we can introduce an element of stability into the defense contracting process, stop the peaks and valleys of the budget, stop the stretch out, stop the changes in quantity, fund adequately at the front end, use multiyear contracting, then we will be able to demonstrate to potential defense contractors that the U.S. Government is a good and reliable customer, and I think we can attract some additional investment into the defense industry. With this additional investment we can go to a higher percentage of competitive contracts.

Let me ask my colleagues if they have any comments.

Dr. DELAUER. The whole question is of competition during the production phase. That is the area that Jacques Gansler recommends we place out emphasis. Jacques and I have worked together over the years on Defense Science Acquisition Board studies. Let me give you a real time example facing us right now.

AMRAAM PROGRAM

We have a program called AMRAAM, which is the advanced medium range air-to-air missile. We have two contractors in the final stages of selection. There is essentially a shootoff. Personally, my recommendation to my superiors would be that we select them both, fund them both, put them both into production, and have, over the life of the program, competition between the two systems. That means they are going to come to this Appropriations Committee and say, look, we need funding up front, to handle both contracts. Bringing competition into the production phase after the program has started at the prime level, after it has been underway for any reasonable length of time at the prime level, has usually been unsuccessful. Once a program has been started however, we can indeed bid at the subcontractor level and have competition. So where we cannot afford to have the prime be competitive during the production phase we are making every effort to have competition at the subcontractor level. Competition late in the cycle will still provide a savings at that level.

Now we have data to support the fact that about 1 dollars' worth of investment in developing a second source will return about $20 over the life of a large program. But we need that money to invest, or the contractors need that money to invest to develop second sources. And there we have to go back to the stability issue Secretary Carlucci mentioned. Contractors are not likely to invest in second source efforts or other cost-saving efforts for that matter if they do not have a stable program. Many of our new initiatives are intended to induce stability into the defense marketplace—especially multiyear procurement.

Chairman HATFIELD. This, of course, raises a number of questions in the matter of subcontractors and operational testing after the weapon system is under production. But let me pursue something for a few moments.

SUBCONTRACTORS AND PARTS SUPPLIERS

What is the trend, in your estimate—now you have challenged Dr. Gansler on other statistics. One of the statistics is a major cause of increase is the rapid decline of the suppliers in the lower tiers—in other words, we are talking here about these parts suppliers and subcontractors—even though about 50 to 60 percent of our weapon systems are subcontracted. What is the trend line here as far as you are concerned?

Mr. CARLUCCI. We agree with them. We think it is a serious problem.

DOD COLLECTION OF DATA AT SUBCONTRACTOR LEVEL

Chairman HATFIELD. Further, we understand the DOD has not even collected data at the subcontractor level and below. Now is this true and what are you doing about that particular problem?

Dr. DELAUER. No, we do not collect data at the subcontractor level or below. We have looked at it. We do not have a data collection process at that level. It is not hard to assess how we are doing because we can talk to the major primes or major first tier subs and see how the vendor community is.

Chairman HATFIELD. Wouldn't it be helpful to collect that data?

Dr. DELAUER. It would be helpful from an overall statistical standpoint. I don't know how meaningful it would be from a kind of acquisition policy action standpoint. We know that we are having problems. We can tell by the leadtimes. That is what one of the things is you have behind you, Mr. Chairman.

Chairman HATFIELD. What are you doing to correct that?

Mr. CARLUCCI. Just the points that I mentioned before. We are planning to make investments at the vendor level to create an environment so that they are willing to come into the game. We need the stability. We need to know we can buy long lead items over a longer period of time instead of in batches at a time. So in that area we would like to have multiyear contracts. Most of the components at the vendor level are purchased by either the major subcontractor or the prime.

PRE-PRODUCTION TESTING

Chairman HATFIELD. What are you doing about the matter of giving more emphasis to testing before the actual production work begins? Is this where you want to set up a duality of procurement?

Dr. DELAUER. Acquisition initiative number 12 of Mr. Carlucci's 32 initiatives deals with this issue. We are establishing a program where we integrate the testing during the development phase along with the user, to get the user more involved in that. It's interesting, however, that Dr. Gansler's book and the Defense Science Board found that some of the testing that has been advocated in the past has not turned out to be as advantageous as people believe. As you stretch the program out, keeping a lot of people in the action while you wait for some test results, you find cost goes up significantly. Let's take airplanes as an example. Commercial aircraft do not do that. The commercial airplane builders

use their development tests to support their operational requirements. The FAA participates with the builder in watching those tests and helps them evaluate test results in order to shorten the cycle. The cost of our weapon systems is the length of the cycle. If you want to generalize on why things are expensive in my opinion, it is the length of the cycle. They have varied from a period of about 5 years to a period now of 12 to 17 years.

I notice you have on the back there what I would call a growth chart. We have used that before. You have it plotted on a linear plot. But if you look at block charts you will find it is a straight line, and every 10 years the price is going to go up 4½, 5 times. If you buy a new system or modified system it goes up about 2½.

Chairman HATFIELD. My 10 minutes is up. I will come back and pursue some of these.

I would now yield to Senator Proxmire.

SUCCESS OF PAST REFORM ATTEMPTS REBUTTED

Senator PROXMIRE. Mr. Carlucci, you say that you acknowledge the litany of similar reform attempts I ran through. You say they have been in part successful. Yet it seems to me that the chart that the chairman has presented this morning is a devastating rebuttal of that. These are all fine men. I admire them all. Heaven knows they are brilliant, patriotic Secretaries and Under Secretaries who have given this country a great deal. But unless we do something different it seems to me we are in for more of the same.

What the chairman of this committee has given us this morning is charts that show increases of 50 percent, 60 percent, in one case, the M–1 tank, almost 80 percent in 1 year. In every case you have this colossal increase. And also we have this appalling situation where the Soviet Union, which all of us had thought had a far more primitive economy than we have, is outproducing the United States overwhelmingly in tanks, in planes, in other areas, and in some cases with higher quality. If this is successful, you can't stand much more of this kind of success, can we?

Mr. CARLUCCI. Senator Proxmire, what you see on the chart is a result of a whole series of factors. It is not some isolated phenomena that exist out in the plant or exist just in DOD. It results, in my judgment, principally from the instability we have introduced into the process through budget stops and starts, through overregulation, which result in turn in stretchouts, changing quantities. A lot of cost escalation is quantity change. We are caught both ways. If we increase the buy, the total cost goes up, and that is called cost escalation. If we stretch out the buy, the unit cost goes up. One of the most important things we can do to get cost down is to buy in economical lots. This requires good planning at the front end and it requires stability in the process. None of my predecessors and none of the Secretaries that you cited had that stability to work with. The budget kept changing under them, particularly in the last 4 or 5 years. But we have been disinvesting in defense in real terms in this country for the past 10 or 12 years. When

you try and control cost in a situation where you are disinvesting, you are bound to introduce an element of instability. So what my predecessors tried was not wrong, it is just they weren't given the full range of tools with which to deal. To get that full range of tools requires complete cooperation between the executive branch and Congress.

POSSIBILITY OF REDUCTION IN DEFENSE EXPENDITURES

Senator PROXMIRE. You have overwhelming bipartisan support now for increasing our expenditures for defense. Every single Democrat voted for this enormous increase the President recommended. And it seems to me that this is a clear consensus in our country. Do you feel that you will be able to reduce these enormous increases in cost if you get this steady support year after year for a budget in real terms at least as big or growing?

Mr. CARLUCCI. I feel that if we get budget stability and if the Congress will assist us in some of the reforms we have suggested, such as multiyear contract, which is under debate at this very moment on the House side, yes, we can prevent cost escalation. I am not going to claim we are going to solve the problem because certainly there are going to be changes in design, there are going to be changes in the quantity of the buy from time to time, but we can do far better than that chart shows.

CONTRACT COMPETITION

Senator PROXMIRE. Let me get to the point I raised that I thought was a serious omission from your list. As you say, you had 31 methods of improving procurement, and not one of them included competition. You indicated that you thought that competition was central to your program.

Let me first ask isn't it true that a number of governmental and nongovernmental studies by academics, businessmen and economists have concluded that there is a 15- to 25-percent differential in favor of competitive bidding over noncompetitive? It would cost 15 to 25 percent less. Do you disagree with these conclusions?

Mr. CARLUCCI. I don't consider myself an expert on those studies.

Mr. TRIMBLE. We have used a 15-percent figure for a number of years. In a number of instances we have gone as high as 15 to 25 percent, and that is the figure Mr. McNamara used during the 1960's. However, Mr. Proxmire, the problem that we are experiencing is that those who apply this to the total acquisition process seem to believe we ought to be able to achieve these reductions if we were only to recompete the programs every year. It is impossible to recompete all major production programs. We have to be very selective in applying competition against the acquisitions we are responsible for within the Department of Defense. In some instances it is possible to achieve the figures you cited. In other instances it is not logical to go through the process because we cannot select another source other than the existing manufacturer.

Mr. CARLUCCI. Senator Proxmire, let me say I fully accept your premise we need more competition. I am not arguing as to that. I will be glad to add to the 31 points and make it 32.

Senator PROXMIRE. I would be happy if you dropped the other 31 and concentrated on 1.

Mr. CARLUCCI. Please accept my basic point. Many, if not all, of the other 31 are directed toward increasing the industrial base which enables us to have greater competition.

Senator PROXMIRE. I understand. I am just being facetious when I say that. It just seems to be the bottom of our priorities because you omitted competition, that competition is a lesser priority than the other 31.

DOLLAR AMOUNTS OF COMPETITIVE AND NONCOMPETITIVE AWARDS

At any rate, do you have figures here as to the dollar amounts of noncompetitive and competitive awards given annually by the Pentagon? You gave the chairman something like that.

Mr. CARLUCCI. Yes, I do have the dollar figures which I will submit for the record, the correspondence of the percentages that I read. In the 1980 competitive, $39.8 billion and the figures for the first half of 1981 is $27.9 billion.

[The information follows:]

COMPETITION

(Dollars in billions)

	Fiscal year 1980		Fiscal year 1981 1st 6 months	
	Dollars	Percent	Dollars	Percent
Price competition	$19.4	28	$14.3	35
Technical and design competition	5.7	8	4.1	10
Follow-on after price competition	1.4	2	.6	2
Follow-on after design competition	13.3	19	7.7	19
Catalog or market price	(Not collected)		1.2	3
Subtotal	39.8	57	27.9	69
Sole-source	30.6	43	12.7	31
Total	70.4	100	40.6	100

CALCULATING COMPETITION

Senator PROXMIRE. But haven't you changed the way that you calculate competition? The traditional way, doesn't that give totals in fiscal year 1980 of 36 percent competitive and 64 percent noncompetitive? Now you have a follow-on after price competition included.

Mr. CARLUCCI. That is right, because as I indicated when I read it it does include follow-on after price competition.

Senator PROXMIRE. It shifts the percentage, doesn't it?

Mr. CARLUCCI. That amounts to 2 percent. Follow-on after price competition amounts to an additional 2 percent and follow-on after price

design and technical competition amounts to an additional 19 percent in 1980, and 1981 figures are back to the same.

ESTABLISHING GOALS TO REDUCE NONCOMPETITIVE AWARDS

Senator PROXMIRE. In your judgment, would it be wise to establish a goal to reduce noncompetitive awards by a given amount every year and then issue strict orders to all commands to comply with the goals?

Mr. CARLUCCI. I think establishing goals might well be a good idea, but those goals have to be realistic in terms of the contractual base we have to deal with. As I said, you can't compete in nuclear carriers and Trident submarine when you only have one producer.

Senator PROXMIRE. Can you inform the committee what your goals are so we have some basis for judgment?

Mr. CARLUCCI. I have not established that. I am told that the individual Services have established goals.

Senator PROXMIRE. If you can reduce the amount of noncompetitive awards over time in the next year by 10 percent, from roughly $30 billion to $27 billion, applying the lowest rates of 15 percent savings from competition, doesn't that mean you could save $450 million just from this action?

Mr. CARLUCCI. If you make all the assumptions you have made. We will try and increase competition every way we can. There is nothing in anything we are doing that would encourage people not to go with competitive contracts. To the contrary. We want to be as competitive as possible. But let me also emphasize, Senator Proxmire, one of the 31 initiatives is to maintain a record of contractor performance, and you have got to be careful that you don't overemphasize cost competition at the expense of results. One of the problems we have had in the acquisition cycle in the past has been the tendency to buy in, and that happens both with the contractors and with the manager. So we have to monitor the situation very carefully and strike a balance between competition and getting adequate funding to see that the program goes through its life cycle without the kind of cost escalation you see.

FIRM FIXED PRICE CONTRACTING

Senator PROXMIRE. My time is up but the chairman has permitted me to ask one more question. The primary form of contracting in the commercial world is a firm fixed price. We have been told by some defense contractors, "Treat us the way we treat our subcontractors," in other words, establish a price and stick to it. Why can't you do that? Why can't you do that more frequently than you do? It seems we never do that. No wonder people will buy in. They wouldn't buy in if they knew they were going to be stuck with that price.

Mr. CARLUCCI. Senator Proxmire, we do use fixed price contracts quite extensively. Where it is R. & D., such contracts are not particularly appropriate. In fact, the business world accuses us of trying to use fixed price contracts in the R. & D. area.

But let me have Dr. DeLauer address that.

Dr. DeLauer. It depends on the nature of the program we are talking about and how stable the configuration is. You can't make a 1 to 1 comparison with the commercial market. I have sold commercial pumps, I have sold satellites to the Government. The commercial pumps we have been making for 25 years. Virtually the same product. We know our cost to the limit. I can quote a price. I even quoted it to the Russians, and they paid it. They didn't ask for a price breakdown. Most commercial products are priced based on firm cost models. Pumps can be fixed priced but not satellites. I think we can take firm fixed price contracts when we get to a product we have our facts on, particularly when the product can be bought competitively. One of the hardest problems comes when you have a single supplier and you need a product. Take the F–18 for example. On the F–18 we are down to one contractor. I remember I urged General Slay's predecessor when we were evaluating that to buy both the F–16 and the F–18 and he said we can't. They told us to make a selection of only one. We are going to have to get front end money to keep two or more suppliers involved in the beginning to make the savings at the end.

Senator Proxmire. Thank you.

Chairman Hatfield. Senator Kasten.

DETERMINING SUCCESS OF 32-POINT PROGRAM

Senator Kasten. Mr. Carlucci, I want to start right where we ended. Let's say we are having this hearing next year or 5 years from now. You have given us 31 points, and I guess with the help of Senator Proxmire we have 32 points. How do we know these 32 points are going to be successful? How are we going to know you are right or not? Senator Proxmire and Senator Stennis went through various Secretaries of Defense and all their plans and programs. Are you going to say you are successful if you cut 2 percent, if you cut 5 percent, if you can stop cost overruns by so much? Where are you trying to go so we know a year from now whether these 31 or 32 points are good or bad?

Mr. Carlucci. We would hope to achieve all the goals.

Senator Kasten. I mean specifically, so a year from now we can come back and say it worked or it hasn't worked.

Mr. Carlucci. It is very difficult in a process like this to put a firm dollar figure, if that is what you are seeking, Senator Kasten. What we are really talking about in many cases is cost avoidance rather than specific savings. We have established in the Department of Defense a milestone system so we can monitor the implementation of the process. The Secretary and I hold weekly sessions with the Service Secretaries where we review the progress against certain management goals. This particular goal is included in every session. The process comes under intensive review as we go through the budget cycle. It comes under review again as we go through the DSARC process. We submit acquisition reports which are made available to the Congress. And I think you will be able to tell by monitoring the Selected Acquisition Reports where the cost figures, excluding inflation, are going down.

Let me emphasize the point Dr. DeLauer made. In many cases you are going to have to have money at the front end to do the job properly. So I would not expect you to get great tangible results in the first year. We are talking about a 4- to 5-year process.

GOALS DIRECTED TO COST-AVOIDANCE

Senator KASTEN. I would guess when Senator Proxmire asked Secretary McNamara and the others what they were doing they said they were holding weekly meetings, monitoring, all the same words you came up with. What would be the effect, let's say, on the chart behind you? Would we be able to start to see a change? Would you be dissatisfied if the lines kept going up?

Mr. CARLUCCI. Yes, I would certainly be dissatisfied if the lines kept going up.

Senator KASTEN. To what degree? What is the goal? Express it in terms of a percent of change so a year from now we can know whether you are doing what you say you are going to, rather than a number of points.

Mr. CARLUCCI. I find it unrealistic and unfair to the committee, to try and put a firm dollar figure on this. Draw a trend line certainly. I would think it is probably not appropriate to measure by those particular programs, but you can get a group of programs—we can get a market basket of programs for you and you can monitor the program. And indeed, that is what we have. We have reports of the 50 largest. They a · periodic reports made available to the Congress, and you can see very easily what the trend line is. If you wish to establish some goals that would convince you that it is going in the right direction, fine, I would be happy with the trend line moving down.

Senator KASTEN. If we established a 2-percent setaside and said that we will withhold 2 percent of your money with the idea that better program management and better procurement management will eliminate waste and fraud and inefficiency in the system, could you come up with a plan that would reduce 2 percent. In other words, you would have to come to us with a plan to show how you have reduced 2 percent, or you would have to come and say it is impossible to reduce, we have no waste, fraud, inefficiency and procurement practices are absolutely perfect, and you would have to convince us of that. How would you go about that task?

Mr. CARLUCCI. Senator, I think that would be inadvisable. We have just reviewed the need for stability in the process, the need for adequate funding at the front end of many of these programs. If we go through the 31 initiatives you will see that is a common theme. If you start moving funds in an arbitrary way from the procurement process, we are going to get back to the stretchout syndrome which pushes up the unit cost. So we have to look at this in a comprehensive way and not in terms of arbitrary figures and sales.

Senator KASTEN. My time is up, but I just would like to express the fact that I don't think any of us in Congress are satisfied with lists of meetings, program reviews, reports, because that is what Senator Sten-

nis was talking about and Senator Proxmire was talking about, both of whom have heard people in your position come up about this time in every new administration explaining how you are going to solve the problems. We haven't done it yet, so we have to do something different. And I am not satisfied that your list this morning is substantially different.

Mr. CARLUCCI. Senator, I would welcome anything different as long as it contributes to a solution of the problem. We find it very hard to come up with new ideas. We have concluded that it requires a comprehensive, multifaceted approach. If the members of the committee can come up with some additional suggestions that would lead to savings, we welcome it. We don't have the key to the kingdom here.

Senator KASTEN. Thank you, Mr. Chairman.

Chairman HATFIELD. Senator Stennis.

Senator STENNIS. Well, Mr. Chairman, I have used some time already. But we should make it clear to our Secretary we are not complaining now about what he has done or has not done. You haven't had time. You have done mightly well to get in there and recognize these problems so well. You have gotten started. You have had your people dig into these matters. The problem was there when you went in.

Mr. CARLUCCI. Thank you, Senator Stennis.

Senator STENNIS. Thank you, Mr. Chairman.

Chairman HATFIELD. Senator Rudman.

Senator RUDMAN. Thank you very much, Mr. Chairman.

Mr. Carlucci, I have sat here and listened. It reminded me of people who have had a terrible headache for 10 years and have tried every kind of aspirin, but nothing seems to work; they still have the headache.

Senator SCHMITT. You are not going to recommend a lobotomy; are you?

Senator RUDMAN. I listened to Senator Stennis, who probably has seen more of this than anyone on this committee. I listened to my other colleagues. I want to address this from a different point altogether. You and I have had this discussion, and I would like to carry it on a little further.

DOD PROCUREMENT PRACTICES FAVORABLE

I don't think the Defense Department has done a poor job at all of procurement. In fact, I have studied some of our basic procurement over the last 6 years and find your general procurement of items compares rather favorably to that of industry in general. Where the trouble begins is where the chairman has commenced these hearings, and that is essentially in systems such as these. I, for one, believe that the words "waste," "fraud," and "mismanagement" are very much overused. I think if we follow that track and your initiatives we will in fact save or reduce the amounts we will waste. But I am not particularly convinced that we attain Senator Kasten's 2 percent or Senator Proxmire's goals or whatever. I think you have to get back to something more basic than that.

There is something interesting about what is on these contracts. I won't bore you with these details because you know them. But every one of these systems that this committee has put on this chart this morning is significant in one respect. Each of these systems contains one or more technological improvements and advances that essentially have never been tried before. And an intensive study of any of these systems, be it the F–18, the M–1, a new infantry fighting vehicle, has caused industry great pain and strain in implementing what was an idea into a production item.

Now with that background what I wish to know from you is what are your science advisers doing to prevent us from getting into a situation with the new procurement systems that you are talking about already exist in the thinking stages to guarantee in their conception you do not ask for technology which essentially is going to cost us a fortune and cause us these cost overruns. I want to know what you are going to do about that because I think that is where it is all at.

PREPLANNED PRODUCT IMPROVEMENT

Mr. CARLUCCI. Thank you very much, Senator Rudman. I agree with your basic thesis; I would like to read recommendation point No. 2 of the 31 points. These are listed generally in the order or priority, so you can see the priority attached to it. It is called preplanned product improvement. "The revolutionary systems development approach used for new and untried technology to meet military needs frequently ends up with large cost increases and schedule slippages," exactly your point. "An evolutionary approach offers an alternative which minimizes technological risk and consciously inserts advanced technology funds up front. In this manner the leadtime can be shortened while an aggressive schedule of progress can be expected during the service life of the system." This concept is called preplanned product improvement and is commonly used in commercial industry.

We have followed this recommendation up with a memo that I have signed on to the service Secretaries, the Chairman of the Joint Chiefs, and various OSD officers, calling upon them within the next 90 days to examine ongoing and recently fielded major programs for potential PPPI application, estimate the benefits, and present appropriate programmatic recommendations at the next milestone decision point, it calls for them to include consideration of PPPI in acquisition strategy established for all new programs, and calls upon them to organize focal points in PPPI in each of the other areas of responsibility. I think we are pursuing your point.

Senator RUDMAN. If that kind of scrutiny had been applied to the systems that are on the chart behind the committee I would be willing to say, if you could convince your colleagues that system wouldn't work, you probably wouldn't have built the M–1 tank or the F–18 fighter and you probably wouldn't have gone ahead with the Blackhawk as it is proposed. The problem is we are so far into these things we can't stop. We all knew there would be problems with the M–1 tank. The Army tries to cover up some of the facts by saying we are so far

ahead with that we will go ahead. The question is what can we do to keep the cost down.

CX AIRCRAFT

I just want to ask you one specific question, and I want to take this theory of yours and apply it to something very specific. The Air Force Military Airlift Command is talking about the procurement of a new plane. I forget the designation.

Mr. CARLUCCI. CX.

Senator RUDMAN. Right. I have looked at the specifications. I am somewhat familiar with aviation. And I suspect that is one tremendous undertaking. Will your system that you apply to the analysis of purchase look very closely at how much you would lose if you went with the existing technology in 1974?

Mr. CARLUCCI. We are doing exactly that. I have had several meetings on that, looking at the C–5 and various civilian configurations.

Senator RUDMAN. Mr. Carlucci, I hope you do that, because if you don't pin it down we are going to be back next year and next year having the same dialog, the same players, almost the same words, and the same lackluster results. I hope you start looking at how much high technology we are buying and whether or not we need it.

Mr. CARLUCCI. We agree thoroughly.

Chairman HATFIELD. I would only say the M–1 tank is the successor to a joint enterprise we had with West Germany and never got into the main production because we were able to back out of it. So we are maybe not that far committed.

Senator RUDMAN. Well, we are going to look at the M–1 tank.

Chairman HATFIELD. Senator Huddleston.

Senator HUDDLESTON. Thank you very much, Mr. Chairman.

M–1 TANK

Let me say you will be impressed with the M–1 tank. I have taken a ride in it. Being an old World War II tanker, I can see the difference between it and the old ones. It has come a long way. I don't know if we will have any use for it, but it is a hell of a machine. [Laughter.]

I hope we won't have any need for it except to train in it at Fort Knox. That will be satisfactory.

Mr. Chairman, Mr. Carlucci, I think these hearings are very appropriate. As somebody who has been here a while, I can say that nothing ever really changes up here. We keep going over the same material year after year. How to control Government expenses and improve our procurement practices is one that has been with us as long as anybody has been around.

There are a lot of people who say Government ought to operate like a business; then everything would be great. The fact of the matter is, Government is not a business, and has never operated like a business, and never will operate like a business, and would probably be a very poor government if it did. At any rate, what we have to deal with is year-by-year budgets, and every department has to adjust expenditures with every budget and try to cover a multitude of needs.

I have noted since I have been on this committee and when I served as chairman of the Military Construction Subcommittee how expensive it is to try to adjust a department's procurement expenses into what somebody, usually OMB, thinks ought to be the total expenditures of the Government. Because we can't make volume purchases and because we do have to string out the purchases we have very expensive investments over a long period of time. We undoubtedly are losing a tremendous amount of savings that we could have if we could buy more of the tanks, or airplanes that we needed at one time.

Mr. Carlucci has referred to some front-end money that would be helpful, and maybe we can find some. But I am wondering, Mr. Carlucci, to what degree that is really the principal cost growth factor in some of these weapon systems, the fact that we are restrained in the numbers that we can buy in any particular year?

Mr. CARLUCCI. I am subject to second-guessing by my colleagues with more expertise, Senator Huddleston. However, I would say the single most important factor is not being able to buy in economic units, stretchouts that result in budget cutbacks significantly increase the cost. One of the things that we tried to do in putting together the 1981 supplemental and 1982 budget was to bring up the buy of many of our programs so we could achieve efficiency, and we did achieve efficiency, as I recall, in the neighborhood of $400 million, including the buy in 1982.

I think there is something we can do here. We are going to have trouble in the Defense Department in 1982, cramming everything we need including follow-on programs from our 1982 decisions within our budget ceilings. That is going to mean some very difficult choices for our people. There is going to be a tendency for the program manager to want to stretch out and reduce the cost of his particular program. I have alerted everybody to that problem and we are going to try and see that the programs are fully funded and that the most economic buy is included in the program at the front end. That may very well mean terminating some other worthwhile programs.

Senator HUDDLESTON. I think that is the point you do get into, how do you maintain the proper mix of weapons. You could spend all of the money on the F–18, but in the next crisis you may not need an F–18, you may need a ship.

Mr. CARLUCCI. That is exactly the problem, and there are going to be some tough choices. One of the problems I have ascertained in the past is the tendency to try to get everything and stretch out a little longer, which pushed that unit cost way up.

EFFECT OF TECHNOLOGICAL ADVANCES ON FUTURE PRODUCTIONS

Senator HUDDLESTON. When you stretch out, you also vastly increase the likelihood that during the stretch you are going to have a technological advance that you are going to have to factor into later production.

Mr. CARLUCCI. Exactly. It is going to require some tough choices on the part of the administration and the Appropriations Committees.

Senator HUDDLESTON. It is a tough question. I don't know how we are ever going to find a solution to it.

Senator STENNIS. Would the Senator yield for just one brief comment. With all deference to everyone, I think this is your golden year in getting more funding for military purposes. Next year it is going to be harder. You better anticipate that now. The competition will be greater. I think that is the way you size it up, and the way the Senator from Kentucky has phrased his question, too. We will go along with it as best we can, but I am glad you see the problem of next year.

SECOND SOURCE

Senator HUDDLESTON. We were talking about second source. You made some reference to the proper kind of climate. Are you suggesting that it is incumbent upon the Government or upon the Defense Department to assist in the financing of other businesses or other industries that can compete with your sources?

Mr. CARLUCCI. No, but I do think a vital industrial base is an essential element of our national security. As you are probably aware, Senator Huddleston, we are looking at strategy. In fact, our whole procurement cycle starts off with an examination of our national security strategy, and we are moving away from the concept of a short war.

Senator HUDDLESTON. Are you confident in the whole scope of our procurement, all the way down to the minutest part, such as a certain bolt or tap, that specifications are not overly restrictive or not drawn to the point that they themselves keep out competing firms?

OVER-REGULATION

Mr. CARLUCCI. No, sir, I am not confident. I think one of our real problems is over-regulation and second-guessing our program managers, a whole host of statutes and regulations that impose burdens on contractors. It is one of the things we have to examine.

Senator HUDDLESTON. I am sure that is true of the regulations, but even beyond that, specifications may be so drawn that they themselves tend to keep out competitors.

Mr. CARLUCCI. I think that is a problem.

Senator Huddleston. We hear the reports about vast amounts of money paid for a screw that could be bought at the hardware for a tenth of the price. I don't know the validity of those charges, but we hear them. I just wonder if you plan to or if it is one of your initiatives to review all of these points and make recommendations.

Mr. TRIMBLE. We have a major effort now in reviewing our specifications. One of the major new concepts is that of allowing flexibility, encouraging our contractors to come back and tell us where the manufacturer can use a different process, different specifications with the same result, then eliminate the necessity of following this detailed specification.

REPLACEMENT PARTS INVENTORY

Senator HUDDLESTON. Is there an effort to check what is on the shelf before we start obtaining new small parts? I am talking about replacement parts.

Mr. TRIMBLE. Yes, we have within the Department of Defense, indeed all of the Federal Government, standardization in the program for acquisition of commercial products, and we have made very significant progress in this area, Senator Huddleston, of buying more and more commercial products.

AVAILABILITY OF STRATEGIC MATERIALS

Senator HUDDLESTON. One more question. In the area of strategic materials we know a number of materials we need in defense production are not available in this country and some are available in very few places. To what extent is this a factor in our cost projections, and what are we doing not only to assure the supply—the supply itself is critical—but also to contain the cost of that supply? What is being done in that area and what are your initiatives and plans?

Mr. CARLUCCI. Senator Huddleston, before I get to that question, let me refer to point 21 which I think gets to your previous question.

In terms of strategic materials, this is a very real problem. It impacts very heavily on the inflation rate in the industry, which in the aerospace industry, for example, is running way ahead of the national inflation rate. We are working with the Federal Emergency Management Agency on the stockpile issue because, as you know, our stockpiles are in very bad shape. I think in terms of materials that we use critical materials are only 60 percent of the level. So I think our first priority is to try and get those stockpiles up.

Let me ask Dr. DeLauer to comment.

Dr. DELAUER. That is a very tough problem. Not only critical material but critical components. We are having problems developing another source on some of our infrared detectors, for example. As a matter of fact, it is the subject of a luncheon discussion we are going to have with the joint logistics commanders. We have to plan these critical activities and not get ourselves in a position where either a single source, foreign source, or uncontrolled source is so powerful.

Chairman HATFIELD. Senator, may I interrupt. We have two more witnesses and you have gone about 15 minutes. We will have additional questions that each Senator may present for your reponse, Mr. Secretary.

Senator Mattingly.

Senator MATTINGLY. Thank you, Mr. Chairman.

MANAGEABILITY OF DEFENSE DEPARTMENT

Mr. Carlucci, good to see you. A couple comments, one that you made reference to, that the Department of Defense and committee will work together to try to resolve the problem, which I hope can be worked out. You mentioned at the beginning of your testimony increas-

ing costs of the budget, which was and is a prime object. But the question also returns to the cost, which this committee seems to be concerned with, and what is happening to procurement. That gets back to the question: Is the Department of Defense really manageable and can it be made to be held accountable in the short term? You refer to the complex problems on the stability of the budget process, but I have seen no stability.

Senator Schmitt made a comment that there was a disease in the defense cost and we didn't know quite what the disease was. Senator Rudman made the comment that we keep hearing about waste, fraud and abuse and it is not limited to defense. I think we can see it in the water projects and the M–1 tank, and we can't stop. You can't stop water projects. I am not sure if we can or can't. Is it money you need or a management mandate, because the problem rests not with you; the problem rests in the Congress. It is not a lack of intelligence. But I think that there has to be—and I am not sure your 31 points accomplish this—a management mandate from the Congress.

I doubt if you can give it right here, but I would like for this committee to have—and if this committee doesn't want it I would like for you to give it to me and see if this is the thing we need to enter into legislation to restore stability so you don't enter into cost overruns. Can you give to this committee legislative initiatives, because I think that, as a manager in the Department of Defense, you are the best one that has come along in a long time, and I think you have the expertise to give us initiatives so we can legislate the way to go.

ACQUISITION INITIATIVES

Mr. CARLUCCI. Thank you very much, Senator Mattingly. We have attached to the front of the 31 initiatives a list of required actions which shows where congressional action would be appropriate. I would be glad to submit this list for the record, we would certainly be most pleased to work very closely with you or the committee in drafting particular legislative proposals.

[The information follows:]

THE DEPUTY SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

April 30, 1981

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
ASSISTANT SECRETARIES OF DEFENSE
GENERAL COUNSEL
ASSISTANTS TO THE SECRETARY OF DEFENSE

SUBJECT: Improving the Acquisition Process

On 2 March 1981, I directed a 30-day assessment of the Defense acquisition system with the priority objectives of reducing cost, making the acquisition process more efficient, increasing the stability of programs, and decreasing the acquisition time of military hardware. The report, delivered to me on 31 March 1981, provided many specific recommendations and posed a number of major issues for decision.

I have discussed the report with the Steering Group, the Joint Chiefs of Staff, the Service Secretaries, and the Under Secretaries and selected Assistant Secretaries of Defense. Based on the report and those meetings, the Secretary and I have decided to make major changes both in the acquisition philosophy and the acquisition process itself. We are convinced that we have now a historic and unique opportunity to significantly improve the Defense acquisition system. We ask for your cooperation and assistance in carrying out these decisions.

The acquisition decisions are recorded in detail in the attachments to this memorandum. I would like to highlight here the major decisions and their implications for DoD in the following paragraphs.

DoD Acquisition Management Philosophy

The DoD management philosophy that I described in my 27 March 1981 PPBS decision memorandum also applies to the acquisition policy and process. Through controlled decentralization, subordinate line executives will be held accountable for the execution of policy decisions and programs as approved. The review of the acquisition process is a good example of participative management where the Services and other DoD staffs, working together, have jointly agreed on what should be done. All points of view were considered prior to decision. Now that decisions are made, the Secretary and I expect full support of DoD staffs and the Services in implementation.

I affirm the following acquisition management principles:

1. We must improve long-range planning to enhance acquisition program stability.

2. Both OSD and the Services must delegate more responsibility, authority and accountability for programs; in particular, the Service program manager should have the

responsibility, authority and resources adequate to execute efficiently the program for which he is responsible.

3. We must examine evolutionary alternatives which use a lower risk approach to technology than solutions at the frontier of technology.

4. We must achieve more economic rates of production.

5. We must realistically cost, budget, and fully fund in the FYDP and Extended Planning Annex, procurement, logistics and manpower for major acquisition programs.

6. Readiness and sustainability of deployed weapons are primary objectives and must be considered from the start of weapon system programs.

7. A strong industrial base is necessary for a strong defense. The proper arms-length relationships with industry should not be interpreted by DoD or industry as adversarial.

DoD-OMB and Congress

Many of the decisions announced in this memorandum can be implemented within DoD's legislative authority. Some decisions need to be coordinated with OMB. A number of recommendations will need Congressional action before final implementation can take place. In those latter cases, we will work closely with appropriate Congressional committees and their staffs to explain and justify our recommendations for changes to legislative requirements.

DoD-Industry Relationship

While DoD should be tough in contract negotiations as part of the buyer-seller relationship, this does not mean that relationships between management and industry should necessarily be adversarial. Industry and government have a shared responsibility and must assume a new spirit of cooperation. A healthy, innovative, and competitive industrial capability is a primary national objective. I direct all top DoD management, in OSD, in JCS, and in the Services, to ensure this is understood at all levels.

Economies, Efficiencies and Savings

A primary objective in streamlining the DoD acquisition process is reducing costs. All DoD staffs and Service managers should keep this uppermost in their minds. We all must be more aggressive and imaginative in looking for ways to save money throughout all phases of the acquisition process. I look to each of you to use your enhanced authority to bring about major savings and improved methods of operation.

Decisions to Improve Acquisition Policy and Process

The Secretary and I are determined to reduce substantially cost overruns, deploy adequate quantities of needed systems that are operationally effective and ready, and do this in the shortest possible time. We are convinced that the actions directed in the attachment will significantly contribute to achieving these objectives. The major decisions for improvement can be summarized in four categories:

Reduce Acquisition Cost

o Increase program stability by fully funding R&D and procurement at levels sufficient to ensure efficient

cost, supportability and schedule performance, and minimizing changes to the approved program.

- Implement multi-year procurement to improve production processes, increase economy-of-scale lot buying, decrease financial borrowing costs and reduce administrative burden in contracting.

- Reduce administrative costs by simplifying procedures, seeking relief from costly legislative requirements and reducing the number of DoD regulations and directives.

- Encourage capital investment to increase productivity in the defense industry by improved contracting, more reasonable risk sharing, and increased incentives.

- Promote Services use of economic production rates to reduce unit costs and decrease acquisition time.

- Require Services to budget to most likely cost to reduce cost overruns and provide stability.

Shorten Acquisition Time

- Implement Preplanned Product Improvement to reduce unit costs and decrease acquisition time.

- Provide adequate "front end" funding for test hardware.

Improve Weapons Support and Readiness

- Stress acquisition strategies that provide incentives to contractors to attain reliability and maintainability goals.

- Establish readiness objectives early in development programs.

Improve the DSARC Process

- Move toward controlled decentralization of the acquisition process to the Services.

- Reduce the data and briefings required by the Services and other DoD staffs.

- Tie the acquisition process more closely to the PPBS.

Implementation of the Decisions

Implementation of the decisions announced in this memorandum is as important as the decisions themselves. Many decisions, even those within DoD's authority, will take time to implement fully. A large number of DoD managers will have to take part on a worldwide basis.

I assign overall responsibility to the Under Secretary of Defense for Research, Engineering and Acquisition for monitoring and follow-up of all decisions in this report. I expect him to establish an appropriate implementing and reporting system. The first report will be submitted to me by the end of May and every month thereafter until further notice.

Both the Secretary and I appreciate the work you and your staffs have provided during this assessment.

Frank C. Carlucci

SUMMARY OF MAJOR RECOMMENDATIONS AND ISSUES FOR DECISION

RECOMMENDATIONS	IMPACT		REQUIRED ACTION			COORDINATION					
	NEAR TERM (1 YEAR)	LONG TERM	INTERNAL ONLY	OMB OR CONGRESS ALSO	RESPONSIBLE OFFICE	Services	USDRE	ASD(C)	ASD (MRA&L)	ASD (PA&E)	OGC
1. Management Principles	X		X		USDRE	X					
2. Preplanned Product Improvement		X	X		USDRE	X					
3. Multiyear Procurement		X		X	USDRE			X			X
4. Increase Program Stability		X	X		ASD(PA&E)	X	X	X			
5. Encourage Capital Investment to Enhance Productivity		X		X	USDRE	X		X			X
6. Budget to Most Likely Costs	X		X		ASD(C)	X	X			X	
7. Economic Production Rates		X	X		USDRE			X		X	
8. Assure Appropriate Contract Type		X	X		USDRE	X					
9. Improve Support and Readiness	X		X		ASD(MRA&L)	X	X				
10. Reduce the Administrative Cost and Time to Procure Items		X		X	USDRE			X			X
11. Budget Funds for Technological Risk		X	X		USDRE	X					
12. Front End Funding For Test Hardware	X		X		USDRE	X			X		

SUMMARY OF MAJOR RECOMMENDATIONS AND ISSUES FOR DECISION

RECOMMENDATIONS	IMPACT		REQUIRED ACTION			COORDINATION					
	NEAR TERM (1 YEAR)	LONG TERM	INTERNAL ONLY	OMB OP CONGRESS ALSO	RESPONSIBLE OFFICE	Services	USDRE	ASD(C)	ASD (MRA&L)	ASD (PA&E)	OGC
13. Governmental Programs		X		X	USDRE	X		X			X
14. Reduce the Number of DoD Directives	X		X		USDRE	X					
15. Funding Flexibility		X		X	ASD(C)	X	X				X
16. Contractor Incentives to Improve Reliability and Support		X	X		USDRE	X			X		
17. Reduce DSARC Briefing and Data Requirements	X		X		USDRE	X	X	X	X	X	
18. Budgeting for Inflation		X		X	ASD(C)/ ASD(PA&E)	X	X				
19. Forecasting Business Base at Major Defense Plants	X		X		ASD(PA&E)	X					
20. Improve the Source Selection Process	X		X		USDRE	X					
21. Standard Operational and Support Systems		X	X		USDRE	X			X		
22. Provide More Appropriate Design to Cost Goals		X	X		USDRE	X		X			
23. Assure Implementation	X			X	USDRE	X					

SUMMARY OF MAJOR RECOMMENDATIONS AND ISSUES FOR DECISION

ISSUES FOR DECISION	IMPACT		REQUIRED ACTION			COORDINATION						
	NEAR TERM (1 YEAR)	LONG TERM	INTERNAL ONLY	OMB OR CONGRESS ALSO	RESPONSIBLE OFFICE	Services	USDRE	ASD(C)	ASD (MRA&L)	ASD (PA&E)	OGC
A. DSARC Decision Milestones	X				USDRE	X					
Alt. 1: Reduces current four SecDef decisions to three.											
Alt. 2: Reduces SecDef decisions to two. (II and III)			X								
*Alt. 3: Reduces SecDef decisions to two. (I' and II')			X								
Alt. 4: Eliminates SecDef decisions; delegates to Service Secretaries.			X								
B. Mission Element Needs Statement	X			X							
*Alt. 1: Service submits MENS with POM. SecDef approves MENS by accepting POM.					USDRE	X					
Alt. 2: Eliminates MENS. Congressional Descriptive Summary would document Milestone O.			X								
C. DSARC Membership	X			X							
Alt. 1: Maintain status quo.			X		USDRE						
*Alt. 2: Would include appropriate Service Secretary or Chief as full member.											

* Approved Alternative

SUMMARY OF MAJOR RECOMMENDATIONS AND ISSUES FOR DECISION

ISSUES FOR DECISION	IMPACT		REQUIRED ACTION			COORDINATION					
	NEAR TERM (1 YEAR)	LONG TERM	INTERNAL ONLY	OMB OR CONGRESS ALSO	RESPONSIBLE OFFICE	Services	USDRE	ASD(C)	ASD (MRA&L)	ASD (PA&E)	OGC
D. Defense Acquisition Executive *Alt. 1: Would retain USDRE as DAE. Alt. 2: Would designate DepSecDef as DAE.	X		X		USDRE						
E. DSARC Review Criteria Alt 1: Continues present system. *Alt 2: Doubles $ guidelines for major systems to $200M RDT&E and $1B Procurement in FY 80 $.	X		X		USDRE						
F. DSARC-PPBS Decision Integration Alt 1: Continue present practice. *Alt 2: Provide that DSARC reviewed programs be accompanied by assurance that sufficient resources are in FYDP and EPA to execute the recommended program. DSARC review would certify program ready for next stage. Alt 3: Have DRB assume DSARC functions.	X		X		USDRE	X		X			

*Approved Alternative

SUMMARY OF MAJOR RECOMMENDATIONS AND ISSUES FOR DECISION

ISSUES FOR DECISION	IMPACT		REQUIRED ACTION			COORDINATION					
	NEAR TERM (1 YEAR)	LONG TERM	INTERNAL ONLY	OMB OR CONGRESS ALSO	RESPONSIBLE OFFICE	Services	USDRE	ASD(C)	ASD (MRA&L)	ASD (PA&E)	OGC
G. Program Manager Control of Support Alt 1: Would continue present system. Alt 2: Services submit support resource requirements and readiness objectives with POM for systems entering early production. *Alt 3: Same as 2 but gives Program Manager more influence over support resources, funding and execution.	X		X		ASD(MRA&L	X	X				
H. Improve Reliability and Support *Alt 1: Requires early decision on system support approach, objectives and resources, and incentives to balance risks in reliability and support. Alt 2: Does not require up-front efforts to reduce risks. Shifts focus to fixing problems by subsequent re-design of hardware and incorporation of fixes.	X		X		USDRE	X			X		

Recommendation 1

MANAGEMENT PRINCIPLES

The Steering Group recommends that the Deputy Secretary of Defense reaffirm the following major acquisition management principles:

1. An improved statement of long-range Defense policy, strategy and resources will be provided to the Services in order to establish a framework for military objectives, goals, and mission planning to enhance program stability.

2. Responsibility, authority and accountability for programs should be at the lowest levels of the organization at which a total view of the program rests.

3. Service Program Managers should have the responsibility, authority, resources, and guidelines (goals and thresholds) adequate to efficiently execute the program. This should include the system specific acquisition strategy for attainment of the required operational and readiness capability, and appropriate flexibility to tailor the acquisition strategy to estimates of the development priorities and risks.

4. Evolutionary alternatives which use a lower risk approach to technology must be examined when new programs are proposed. Solutions at the frontiers of technology must provide an alternative which offers an evolutionary approach. Pre-planned Product Improvement (P^3I) should become an integral part of the Acquisition Strategy.

5. Achievement of economic rates of production is a fundamental goal of the acquisition process.

6. The Services should plan to realistically budget and fully fund in the FYDP and Extended Planning Annex (EPA) the R&D, procurement, logistics and manpower costs at the levels necessary to protect the acquisition schedule established at program approval points, and to achieve acceptable readiness levels.

7. Improved readiness is a primary objective of the acquisition process of comparable importance to reduced unit cost or reduced acquisition time. Resources to achieve readiness will receive the same emphasis as those required to achieve schedule or performance objectives. Include from the start of weapon system programs designed-in reliability, maintainability and support.

8. The proper "arms-length" buyer-seller relationship should not be interpreted by government or industry as adversarial. The DoD should be tough in contract negotiations. But weapons acquisition should be managed on a participating basis using industry as a full constructive team member. A strong industrial base is necessary for a strong defense.

Recommendation 2

PREPLANNED PRODUCT IMPROVEMENT

A revolutionary system development approach which uses new and untried technology to meet a military threat can offer dramatic potential payoffs, but frequently ends up with large cost increases and schedule slippages.

An evolutionary approach offers an alternative which minimizes technological risk, and consciously inserts advanced technology through planned upgrades of those deployed subsystems which offer the greatest benefits. In this manner the lead time to field technological advances can be shortened while an aggressive

scheduling of fielded performance improvements can be expected during the service life of the systems. This concept is called Preplanned Product Improvement (P^3I), and is commonly used in commercial industry.

Recommendation - Most new and existing systems should be partitioned for performance growth through the application of sequential upgrades to key subsystems in order to reduce development risk, and take best advantage of technological advance.

Advantages - Can reduce acquisition time, reduce development risk and cost, and enhance fielded performance through the deployment of upgrades. A revolutionary approach can always be adopted when the demands of the threat or other compelling military needs require such an approach.

Disadvantages - The performance needed to meet a critical threat may dictate the use of distant technology, but the factors involved in such a decision are seldom incisive. Therefore, the choice between alternatives is not likely to be absolutely clear.

Action Required:

- USDRE, working with the Services, develop within 30 days a plan for implementing Preplanned Product Improvement including definitions and criteria for application.

- USDRE request the Services to evaluate ongoing programs to determine potential for payoff from the application of preplanned product improvement, and to present results at the next DSARC.

- USDRE assure Services have fixed the responsibility for review of opportunities for product improvement after any system reaches the field, and to develop a product improvement plan.

Recommendation 3

MULTIYEAR PROCUREMENT

Recommendation: Encourage extensive use of multiyear procurement based upon a case-by-case benefit/risk analysis.

Advantages: Multiyear procurement could result in average dollar savings of 10 to 20% in unit procurement cost through improved economies and efficiencies in production processes, economy-of-scale lot buying, decreased financial borrowing costs, better utilization of industrial facilities, and a reduction in the administrative burden in the placement and administration of contracts. In addition, the stimulated investment in production equipment will result in lower-defect, higher quality products. The market stability will also enhance the continuity of subcontractor supply lines and thereby decrease acquisition time. Surge capability will also be improved.

Disadvantages: This funding technique fences in money and commits future Congresses. If used to excess, it would significantly reduce the flexibility of the Secretary of Defense to respond to unforeseen changes in the external threat. If a multiyear procurement was used to lock in a border line program, costs would be increased if the program was cancelled. In order to avoid these potential disadvantages, the following criteria are recommended as general guidelines to screen potential multiyear candidates: (1) significant benefit to the Government; (2) stability of requirements, configuration, and funding; and (3) degree of confidence in cost estimates and contractor capabilities.

Action Required:

a. General Counsel must respond in writing to Congressman Daniel's Bill HR 745.

b. USDRE and ASD(Comptroller) should brief Appropriation and Armed Services Congressional Committees on recommended multiyear procurement procedures and concepts.

c. USDRE should prepare special policy memorandum to the Military Departments for SecDef signature defining procedures and requesting identification of potential FY 83 multiyear procurement candidates.

d. USDRE and ASD(Comptroller) should modify DoD Directive 7200.4 and the Defense Acquisition Regulation (DAR) and should interface with OMB to modify Directive A-11 as required.

e. SecDef will present FY 83 President's Budget containing multiyear candidates.

Recommendation 4

INCREASE PROGRAM STABILITY IN THE ACQUISITION PROCESS

Program instability is inherently costly in both time and money. The 47 major programs covered by the December 31, 1980, Selected Acquisition Reports (SARs) reflected total cost growth of 129 percent over the Milestone II estimates. Reasons for growth are economic or inflation (27 percent), quantity changes (26 percent), estimating changes (18 percent), schedule changes (15 percent), support changes (7 percent), engineering changes (5 percent), and other changes (2 percent). Forty one (41) percent of all cost growth is due to quantity and schedule changes.

Of the 47 programs, 19 have had quantity increases, 20 quantity decreases, and 8 are unchanged. Schedule changes have resulted in reduced costs on 4 programs and increased costs on 41. The most common cause for these changes is financial. The budget levels and relative priorities of competing programs force tough decisions to terminate programs, reduce the number of weapons, stretch the development program, delay planned production or stretch the planned buy.

Recommendation: SecDef, OSD and Services should fully fund the R&D and procurement of major systems at levels necessary to protect the acquisition schedule established at the time the program is baselined, currently Milestone II. Limit stretch-outs due to funding constraints (except when mandated by the Secretary or Congress). Establish procedures which will phase the scheduling of sequential milestones so that manpower "peaks and valleys" can be minimized consistent with balancing the risks. In general, only changes which are directed by changed requirements or development problems should be made.

Advantages: Reduces costs and saves time by stabilizing schedules, quantities, and production rates. Will enhance the ability to plan force modernizations.

Disadvantages: Budget flexibility will be reduced.

Action Required: SecDef directs that during program and budget reviews by OSD (DRB) the Service Secretaries must explain and justify differences between program baselines established at Milestone II and the quantity and funding in the program or budget under review.

ASD(C) and ASD(PA&E) include above direction in FY-83 POM and Budget Guidance.

Recommendation 5

ENCOURAGE CAPITAL INVESTMENT TO ENHANCE PRODUCTIVITY

Productivity in the defense sector of the U.S. economy has been lagging, in large part because of low levels of capital investment compared to U.S. manufacturing in general. Cash flow problems, tax policy, high interest rates, and how return on investment (ROI) tend to limit available investment capital. The industry views low profits and program instability as precluding investment in capital equipment. This situation has two major implications: a tendency to shift from defense to commercial business, and a decrease in funds available for facilitization.

Recommendation: Encourage capital investment.

Advantages: Will increase long-term investments which should lead to lower unit costs of weapons systems. Increase productivity.

Disadvantages: Earlier Government disbursements. Some reduction in tax revenues.

Action Required: USDRE should have the prime responsibility to implement the following actions working closely with General Counsel, Legislative Affairs, and the Service Material Commands.

a. General Counsel should support legislative initiatives to permit more rapid capital equipment depreciation and to recognize replacement depreciation costs by amending or repealing Cost Accounting Standard (CAS) 409, "Depreciation of Tangible Assets."

b. Structure contracts to permit companies to share in cost reductions resulting from productivity investments. Modify the Defense Acquisition Regulation (DAR) profit formula. Allow for award fees inversely proportional to maintainability costs.

c. Increase use and frequency of milestone billings and advanced funding. Expedite paying cycle.

d. Provide for negotiation of profit levels commensurate with risk and contractor investment; ensure that recent profit policy changes are implemented at all levels.

e. Instruct the Services of the need to grant equitable Economic Price Adjustment (EPA) clauses in all appropriate procurements. Contract price adjustments made in accordance with EPA provisions should recognize the impact of inflation on profits. Ensure that these clauses are extended to subcontractors.

f. Increase emphasis on Manufacturing Technology Programs.

g. Provide a consistent policy which will promote innovation by giving contractors all the economic and commercial incentives of the patent system. Provide policies to protect proprietary rights and data.

h. General Counsel should work to repeal the Vinson-Trammell Act.

Recommendation 6

BUDGET TO MOST LIKELY COSTS

Intentionally low initial cost estimates are a prime contribution to apparent cost growth. Program costs are sometimes purposely understated either because DoD is forcing a program to fit available funding rather than the funding it takes to do the job, or because the contractors are purposely lowering their cost estimates in order to win a contract with hopes of recovering costs on follow-on contracts. Either practice is referred to as "buying in." When the actual costs become apparent, DoD is severely criticized for cost overruns and there are insufficient funds available to

procure at economic production rates. Also, the negotiated contract cost does not include future engineering changes or post-contract award negotiations which can drive costs higher.

Recommendation: Require the Services to budget to most likely or expected costs, including predictable cost increases due to risk. Provide incentives for acquisition officers and industry to make and use realistic cost estimates.

Advantages: Less cost growth. More realistic long-term defense acquisition budget. Increased program stability.

Disadvantages: Difficulty in determining if a contractor is providing realistic estimates. Political difficulty in rejecting bids that project prices lower than costs. Difficult to budget funding greater than publicly-known contractual funding.

Action Required: ASD(C) require the Services to budget to most likely or expected costs including predictable cost increases due to risk, instead of the contractually agreed-upon cost. USDRE and the Services provide incentives for acquisition officers and contractors to accurately project costs, including financial incentives and performance evaluation considerations to DoD personnel, and profit incentives to industry to reduce costs.

Recommendation 7

ECONOMIC PRODUCTION RATES

The cost and time needed to put a weapon system into the field can be reduced by establishing and sustaining economic rates of production (i.e., the rate at which unit cost doesn't decrease significantly with further rate increases). Tight budgets and strong competition between programs have forced many programs to accept funding levels in the budget which will not sustain an economic rate of production.

A commitment to economic production rates cannot rule out sound arguments for lower (or higher) rates. For example, the Services may wish to stretch a program over a number of years in order to preserve a warm production base to permit rapid mobilization to meet a crisis or war. However, this requires stockpiling of materials, parts and subsystems to be effective.

Recommendation: Services must use economic production rates in their program and budget requests, or explain and be prepared to defend the reason why a different rate was selected.

Advantages: Save time and reduce cost of acquiring new systems.

Disadvantages: Will buy out the total system faster (shorter production run for a given quantity) with peak funding competing with other systems, possible workload fluctuations in certain industries with occasional dead time and possible erosion of the industrial base. Can increase cost of correcting support problems.

Action Required: Secretary of Defense establish policy requiring Services to fund programs at economic rates or justify any differences during budget reviews by OSD and the DRB. USDRE and ASD(C) include this requirement in the FY 83 program and budget guidance.

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Recommendation 8

ASSURE APPROPRIATE CONTRACT TYPE

Industry has repeatedly, over a long period, expressed serious concerns about the recurring use of the wrong type of contract. In particular, fixed price contracts are frequently employed for RDT&E and early production, which have legitimate cost uncertainties. This leads to a high risk situation for the contractors and to cost overruns for DoD. Current DoD policies and regulations give guidance as to the use of appropriate contract types; however, this guidance is not being followed in the field.

Recommendation: Give the Program Managers the responsibility to tailor contract types to balance program needs and cost savings with realistic assessment of an acceptable balance of contractor and government risk. Recommendation 1/Management Principle 3 states that the Program Managers be given the authority to determine the specific acquisition strategy.

Advantages: Precludes a company from being forced to assume cost risk beyond their financial ability.

May increase competition if contractor risks are recognized.

Gives the Program Managers more flexibility to accommodate program needs.

Disadvantages: Government assumes more cost risk.

Action Required: USDRE establish an OSD, Service, Industry working group to develop an implementation plan to ensure that appropriate contract types are used. USDRE and the Service Secretaries ensure that Program Managers have the responsibility for determining the appropriate contract type. USDRE should ensure that the regulations are clear on this point.

Recommendation 9

IMPROVE SYSTEM SUPPORT AND READINESS

As a result of recurring problems with weapons system support, the recent revision of acquisition policies includes a major emphasis on support issues, including reliability, maintenance, spares, test equipment, and maintenance manpower. These recent policies are generally sound, are not directly influenced by the major acquisition process options presently under consideration and can be undertaken under any option.

To be effective the policies require Secretary of Defense commitment. The need for this specific commitment results from the competition among the conflicting objectives of high performance, lower cost, shorter schedules, better reliability and maintenance, and support.

Recommendation: Establish readiness objectives for each development program to include estimates of the readiness level to be achieved at early fielding and at maturity. Implement acquisition policy establishing "designed-in" reliability and readiness capabilities. The implementation must emphasize the objectives of shortening the overall time to deliver equipment to the troops which meet mission and readiness needs; the need for improved estimates of the R&D and support resources required; and additionally, ask that some force elements(s) be targeted for a major improvement in designed-in support capability to be less dependent on a support tail.

Advantages: Clarifies that improvement in readiness is a major objective of the Administration, and that implementation must take place.

Disadvantages: Will require additional technical effort and resources early in acquisition programs.

Action Required: MRA&L draft SecDef policy letter to be issued within thirty days, reaffirming weapons support policy and objectives, and tasking the Services to develop implementing guidelines, including procedures for addressing support early in acquisition programs.

Recommendation 10

REDUCE THE ADMINISTRATIVE COST AND TIME TO PROCURE ITEMS

In 1974, less stringent requirements were established for DOD Contract procedures associated with purchases under $10,000. The purpose was to reduce both the time and paperwork costs to a level commensurate with the value of the item being purchased. Over the years the tendency of a bureaucracy to take precautions has expanded the paperwork associated with a procurement, and inflation has reduced the purchasing power of the dollar until the $10,000 item of 1974 would cost almost twice that much to purchase today.

A similar inequity exists in the administrative procedures governing contract funding execution. Department of Defense and Service procedures place numerous administrative requirements on the obligation of funds. They provide unnecessarily cumbersome safeguards for the public interest, to a certain extent thereby, thwarting that interest. There is also a general tendency to apply the most burdensome procedures, even if administrative shortcuts are allowed. The DoD is motivating its contract and fund administrators to avoid the least possibility of criticism rather than to use economic procedures.

a. Recommendation: Raise the $10K limit for purchase order contract use to $25K to accommodate inflation and reduce unnecessary paperwork and review. Letter is enroute from Joint Logistics Commanders to DEPSECDEF recommending change. Proposal is currently in staffing at OMB for inclusion in the Uniform Procurement System (UPS) and as a legislative initiative.

Action Required: DEPSECDEF recommend that OMB (OFPP) initiate change to 10 USC 2304.

b. Recommendation: Raise threshold for contractor costing data input from $100K to $500K to accommodate inflation and reflect current auditing procedures. (Paperwork load is such that only data for contracts over $500K is actually audited today.)

Action Required: DEPSECDEF recommend that OMB (OFPP) initiate legislative change to USC 2306.

c. Recommendation: Raise threshold for Service Secretary review of Contract Determination and Findings (D&F) for RDT&E from $100,000 to $1 million. Current level was set in mid-1960s. Higher level would still cover 90 + % of expenditures (dollars). Higher limit supported by JLC.

Action Required: DepSecDef recommendation to OMB (OFPP) for approval; subsequent change to Defense Acquisition Regulations (DAR).

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d. Recommendation: Encourage greater use of class (D&Fs) which allows one D&F to cover multiple contracts. Reduces total volume of contracts which must be reviewed, thus speeding up processing time.

Action Required: USDR&E prepare policy statement encouraging greater use of class D&Fs.

e. Recommendation: Raise reprogramming thresholds from $2M to $10M for RDT&E appropriations and from $5M to $25M for procurement. Thresholds were set 10 years ago with no inflation accommodation. Greatly reduces Service flexibility to answer program.

Action Required: Renew SecDef/DepSecDef efforts to obtain Congressional Committee approval (HASC, SASC, HAC, SAC).

Advantages (all above recommendations): Provides immediate relief from unnecessary paperwork burden. Reduces administrative lead time, which will result in reductions in in-house and industry overhead cost. Supports a far more efficient Government cash flow management.

Disadvantages: Less opportunities for legal reviews.

f. Recommendation: Eliminate the need for non-Secretarial level D&Fs for competitive negotiated contract awards.

Advantages: Reduced paperwork and administrative lead times. In conjunction with recommendation C above, to increase D&F thresholds, the D&F requirement would be considerably reduced.

Disadvantages: Many smaller procurement actions would not be reviewed above program office level.

Action Required: SecDef submit recommended legislation to review public law.

g. Overall Action: USDR&E prepare implementation plan and required SecDef letters within 60 days. Tie cost thresholds to inflation.

Recommendation 11

INCORPORATE THE USE OF BUDGETED FUNDS FOR TECHNOLOGICAL RISK

Material development and early production programs are subject to uncertainties. Program managers who explicitly request funds to address these uncertainties usually find these funds deleted either in the DoD PPBS process, by OMB, or by Congress. Then when such uncertainties occur, undesirable funding adjustments are required or the program must be delayed until the formal funding process can respond with additional dollars.

The Army has initiated, and Congress has accepted, a Total Risk Assessing Cost Estimate (TRACE) to explicitly address program uncertainties in the development of RDT&E budget estimates. The Army is studying the application of this concept to early production cost estimates. The other Services lack a similar concept to justify reserve funds for dealing with developmental uncertainties.

Recommendation: Increase DoD efforts to quantify risk and expand the use of budgeted funds to deal with uncertainty. Encourage all Services to use such budgeting where appropriate.

Advantages: Cost estimates will be more realistic over time. Programs will be more fully funded and overall programs will be more stable.

Disadvantages: Can encourage a more costly treatment of problems that might be solved in other ways (self-fulfilling prophecy). Higher initial program estimates would result in fewer programs within a stated total obligation authority.

Action Required: SecDef emphasize the requirement to evaluate, quantify and plan for risk. USDRE direct all Services to budget funds for risk. In particular, each Service should review the TRACE concept and either adopt it or propose an alternative for their use to USDRE within 60 days.

Recommendation 12

PROVIDE ADEQUATE FRONT END FUNDING FOR TEST HARDWARE

Weapon system development programs often have too few test acticles to allow parallel tests for performance, reliability, etc., and in order to shorten development time without substantially increasing risks. Procurement of too few test articles forces a sequential approach whereby the available test articles are dedicated exclusively to development testing. Consequently, operational and other testing cannot be accomplished concurrently (within acceptable levels of risk) to save time.

In addition to designing for the major performance objectives, increased emphasis should be placed on designing for reliability by providing adequate design margins, while giving full consideration to adequate testing, fault isolation and maintainability. Adequate test hardware should be provided in the program to permit early combined environmental tests of the subsystems and subsequent system tests, to allow iteration of the design using the test-fix test process to achieve early design maturity.

Recommendation: Provide sufficient test hardware to meet the subsystem, system and software engineers' needs to properly engineer and test development of the end item hardware using parallel testing to reduce overall schedule time. The number of test articles must be defined and explained during preparation of Service programs and budgets.

Advantages: Saves time in the total acquisition process by emphasizing reliability up front and eliminating lengthy and costly problem identification and correction effort; also allows realistic concurrent development and operational testing.

Disadvantages: Requires increased front end funding.

Action Required: USDRE ensure that the acquisition strategy identify plans for and funding required to acquire adequate subsystem and system test hardware to reduce overall schedule time and risks.

Recommendation 13

GOVERNMENTAL LEGISLATION RELATED TO ACQUISITION

Over the past decade, the acquisition process has become overburdened with governmental legislation and requirements. Individually, these regulations have worthwhile objectives;

collectively, they impose a costly and burdensome requirement on industry and the acquisition process.

Recommendation: Seek DoD relief from the more burdensome requirements of governmental regulations.

Advantages: Less cost to contractors in doing business with the Government. Reduce program costs. Simpler contracting procedures. Faster contract awards.

Disadvantages: Reduced benefits which are considered important national goals. Request for relief will certainly spark debates with the various interested groups.

Action Required: USDR&E establish joint OSD and Service team to weigh the impact of the various governmental requirements and regulations on the efficiency and effectiveness of the total DoD acquisition and contracting process. Industry and OMB should participate to the maximum extent possible. A report should be prepared for the DepSecDef within 45 days.

Recommendation 14

REDUCE THE NUMBER OF DOD DIRECTIVES

The current acquisition directive refers to 114 (up from 15 in 1971 and 26 in 1977) related directives and instructions. The Services emulate these directives in implementation with their own implementing instructions. There is rarely a challenge to these well-intentioned directions, nor is there a cost-benefit check performed. Program manager and industry initiatives are often stilted by overregulation. With each new directive additional paperwork, manhours and other direct costs are expended in compliance. Congressional, GAO, industry, OSD, and OFPP studies have indicated that contractually imposed management systems and data requirements cost 8 cents out of every contract dollar. With defense contracting approaching $100 billion a year, it means that these management-imposed requirements cost approximately $8 billion per year. A 20% improvement would save $116 million per year.

Recommendation: Reduce the number of directives. Require that the Defense Acquisition Executive be the sole issuer of DoD directives related to acquisition. This would not mean that DAE would draft all such documents, only that DAE would have final review and releasing authority.

Advantages: Coordinates requirements and reduces the issuance of superfluous directives. Will reduce program costs to the extent that directives require reports, data, documentation.

Disadvantages: Adds an additional layer to the process of issuing or revising a directive. Places the DAE in control of directives for areas of acquisition for which he may have little expertise.

Action Required: USDRE establish a joint OSD, Service, Industry team to provide recommendations within 90 days to substantially reduce the number of directives, and the documentation required in contracts.

Recommendation 15

FUNDING FLEXIBILITY

Program continuity requires that we budget for procurement funds more than a year in advance of the actual transition date of major acquisition programs from R&D to procurement. Since most development program schedules are success oriented, sometimes the procurement transition date arrives and the system is not ready to buy. Because procurement funds have been budgeted, there is considerable pressure to proceed with production rather than accept program delay. If the Secretary (and/or Military Departments) had the authority to transfer these procurement funds to R&D to correct deficiencies without the prior approval of OMB and Congress, it could significantly decrease the time involved in resolving program problems. Section 734 of P.L. 96-527 (DoD Appropriation Act) provides a general authority for Transfers, not to exceed $750 million between DoD appropriations. Its use requires a determination by SecDef that such action is in the National Interest and must have prior approval by OMB. Our current reprogramming arrangements with the Congressional Oversight Committee provide that any such transfer is of "special interest of the Congress" and requires their prior approval, in effect, negating the independent use of transfer authority by the Department.

The proposal would require the support of the Oversight Committees and OMB. Ideally, such approval should be included in the general provisions of the Appropriations Act as a subsection of 734. We will have to work closely with Congress to ensure that this authority would apply only to the movement of funds programmed for an individual weapon system, and would not be used to transfer funds between programs.

Recommendation: Obtain legislative authority to transfer individual weapon system Procurement funds to RDT&E.

Advantages: Provides DoD with more flexibility to resolve weapon system funding deficiencies.

Avoids program delays associated with OMB/Congressional review and approval of funding adjustments.

Maintains program stability by enabling program manager to resolve problems within total available acquisition funding of the program involved

Disadvantages: OMB/Congressional visibility occurs after the fact.

Could jeopardize current appropriation and authorization process.

Could jeopardize current reprogramming arrangements with Congress.

May be destabilizing.

Action Required: ASD(C), working with the General Counsel, OMB and Congress establish procedures for DoD approval of the transfer of funds in a given fiscal year from Procurement to RDT&E for an individual weapon system when the Secretary of Defense determines that it is in the National Interest to do so.

Recommendation 16

CONTRACTOR INCENTIVES TO IMPROVE RELIABILITY AND SUPPORT

Industry has said that even though there is recently more attention paid to "support" in DoD solicitations, there is a widespread belief that performance and schedule are DoD's principal objectives. There is a need for industry to apply more of their design talents to reducing reliability and support problems. Beyond this a need to improve the identification and specification of maintenance manpower constraints and for industry to include these constraints in the designs.

Recommendation: Acquisition strategies should identify the approaches to incentivize contractor attainment of reliability and maintainability (R&M) goals and reduce maintenance manpower and skill levels. These should include the approach taken in the RFP evaluation, as well as specific awards, incentives and guarantees, such as specific rewards for improving reliability. The Services should develop greater expertise in support related contractor incentives through analysis of experience gained on DoD programs.

Improvements should be developed in the method of projecting critical maintenance manpower skill limitations and translating these into design constraints and objectives for inclusion in RFPs and specifications.

Advantages: Improves reliability and support. Reduces maintenance manpower requirements.

Disadvantages: Incentives other than competition require additional funds.

Action Required: USDRE working with the Services, develop guidelines to include the approaches to incentivize contractors to improve support within 60 days, followed by a USDRE and Service evaluation of incentives within the next year.

USDRE develop with the Services, within one year, improved approaches to translate maintenance manpower skill projections into system design objectives.

Recommendation 17

DECREASE DSARC BRIEFING AND DATA REQUIREMENTS

During recent years there has been a growing tendency to centralize the decision process within the DoD. This practice has multiplied throughout the numerous levels of authority in each of the Services, and has complicated the review process. This practice has, in and of itself, lengthened the acquisition cycle; created cost increases due to delays in decisions; confused the authority, responsibility and accountability of the designated Services Managers; and has stifled innovation which could produce program improvements leading to cost savings. The principle of decentralization should be applied to acquisition management.

Recommendation: Emphasize the requirement to achieve appropriate delegation of responsibility, authority and accountability to and within each Service for system acquisition to reduce the time and effort required for DSARC and Service major system reviews.

Advantages: Reduced system cost and shorter acquisition cycles. More efficient reporting by and within the Services. More streamlined program management. More efficient DSARC and other program reviews. Potential elimination of layered management resulting in lean organizations.

Disadvantages: Some risk of losing a thorough functional analysis of the system because of the elimination of more detailed reviews.

Action Required: USDRE make explicit the changed character and the reduced number of briefings and data for the DSARC review.

Recommendation 18

BUDGETING WEAPONS SYSTEMS FOR INFLATION

Historically, inflation predictions have been lesser than the actual inflation that come to pass. The situation has been most severe in major weapon programs that spend out slowly and extend into those years when inflation estimates have been poorest. The result is that unpredicted inflation has cut heavily into real program by as much as $6 or $7 billion a year. In addition to the serious underfunding of major weapon and other purchases, DoD is charged with poor management because of the amounts of cost growth in current dollars appearing in reports and in the process.

Recommendation: Review various methods and alternatives for budgeting more realistically for inflation.

Required Action: Comptroller and PA&E develop in more detail the various alternatives addressing the inflation issue as related to planning and budgeting for major acquisition programs and provide a decision paper to the Deputy Secretary of Defense within 30 days; discuss draft options with OMB and appropriate Congressional staff.

Recommendation 19

FORECASTING OF BUSINESS BASE CONDITION AT MAJOR DEFENSE PLANTS

The business base at key defense plants is not adequately considered in DoD program development. Cross-Service impacts and the effects of non-DoD work distorts business base projections and seriously increases overhead costs. This has caused large cost growth for certain weapons systems. Too little consideration is given to this factor in DoD planning and decision-making.

Recommendation: The Services will increase the effort to coordinate programming information that affects other Service overhead costs at given defense plants. Program offices will provide program projections to plant representatives so that overall business projections can be made available to the Services for planning and budgeting.

Advantages: Better cost estimates and lower cost to the government. Provides more realistic costs and stability.

Action Required: Contract Administration functions will be directed to maintain a business base projection, and government offices will be directed to support this effort and utilize these data in planning and budgeting. The OSD Cost Analysis Improvement Group (CAIG) will maintain a data exchange for the Services to assist in improved forecasting.

Recommendation 20

IMPROVE THE SOURCE SELECTION PROCESS

Some DoD competitively-selected contractors have performed poorly. In some instances, source selection criteria do not sufficiently take into account past performance or plans for future phases of a program. Also, the credibility and realism of contractor cost proposals are not always challenged.

Recommendation: Improve the source selection process to place added emphasis on past performance, schedule realism, facilitization plans and cost credibility. De-emphasize the importance of lowest proposed cost. Devote more attention to evaluating contractors' performance during and at the time of contract completion. Provide award fee contract structure to encourage good performance. This both provides an incentive for good performance, and a measure of contractor performance to be used in future source evaluations. Establish quality ratings where possible and ensure these past performance ratings are available for use by source selection personnel.

Advantages: Eliminate poor performers, eliminate proposals that are unrealistically priced, thereby reducing the risk of buy-ins.

Disadvantages: May limit competition. Will be difficult to implement and apply fairly.

Action Required: USDRE modify the source selection directive, DoDD 4105.62, to emphasize the objectives stated above. USDRE establish a DoD system for recording, documenting and sharing contractor performance.

Recommendation 21

DEVELOP AND USE STANDARD OPERATIONAL AND SUPPORT SYSTEMS

New subsystems and support systems are developed that are peculiar to specific weapon systems, yet have many performance features in common with other systems. Use of standard, off-the-shelf subsystems and/or support systems for some of the long lead time items can reduce development time.

Recommendation: Identify and develop standard subsystems and support systems or their technology (independent of weapon systems) to meet projected weapon system needs. Support a program of weapon support R&D to put diagnostic, repair, and logistic technology on the shelf.

Advantages: Earlier deployment with lower risk. Enhanced supportability. Reduction in operating costs.

Disadvantages: Standard systems or technology may not be best match for the weapon system needs. Requires increased funding to implement. Could be overemphasized.

Action Required: USDRE working with the Services submits a proposed program for FY 82 and beyond within six months.

Recommendation 22

PROVIDE MORE APPROPRIATE DESIGN TO COST GOALS

Design to Cost (DTC) fee awards are made as a result of paper analysis. There is little or no tie to actual costs in production. DTC incentive fees and awards are payable during and at the conclusion of Full-Scale Development. Award is based on the forecasted average cost for the production quantity.

Recommendation: Provide appropriate incentives to industry by associating fee awards to actual costs achieved during the early production runs.

Advantages: Ties award to "real" achievement. Makes DTC meaningful.

Disadvantages: Changes in program (rates, quantity, inflation, etc.) complicate analysis of results. Longer time between DTC effort and award payment.

Action Required: Insure program managers and contracting officers develop contract terms and procedures to provide for the payment of Design to Cost (DTC) awards and incentives based upon costs actually achieved during early production runs. Base payments on demonstration that initial costs are on track with DTC goal for total forecasted production.

Recommendation 23

ASSURE IMPLEMENTATION OF ACQUISITION PROCESS DECISIONS

The acquisition process has been studied many times by many organizations. Most of the recommendations presented here have been made before. However, few of these recommendations have been implemented. Congress, GAO, OMB, OFPP, industry, and OSD have continuously criticized the Services for not following DODD 5000.1 and DODI 5000.2. A recent Navy acquisition study reviewed the implementation status of past acquisition process studies and found that of 50 recurrent recommendations, some progress is perceived to have occurred in 29 and almost no progress is perceived to have occurred in the remainder.

A difficulty with implementing recommendations regarding the acquisition process is the great number of players involved to make implementation succeed. This requires persistent, intensive, follow-up effort to make sure that the recommendations really do take hold. The most common reason for non-implementation is simply that relentless action on the part of top management is not taken to insure that recommendations are, indeed, implemented. OSD has, in the past, focused a great amount of management attention on policy development and resolution. However, OSD has not monitored implementation of the policies on a program basis.

Since potential decisions could lead to major changes to the process and even to DoD organizations and their roles, it will be difficult for the existing DoD organizations to execute changes without high level attention by the SecDef and DepSecDef. Elimination of the complexity inherent in the current process is masked unless the many different types of changes are considered in terms of the aggregate administrative and reporting load generated.

A fundamental determination which is required for each decision is whether implementation should reflect centralized control under OSD or decentralization to the Services. In selected areas a uniformity of action across Services may be desired.

Recommendation: Ensure that a determined management translates approved recommendations into implementable direction and fixes responsibility so that management has visibility of the actions taken.

Advantages: This plan will not succeed without a well planned, intensive, high visibility, relentless implementation phase. Without this effort, this report will degenerate into another study.

Disadvantages: Implementation will require a priority and time commitment from all levels of management ranging from the SecDef to the Program Manager for a number of years.

Action Required: a. Assign overall responsibility to USDRE for monitoring and follow-up of all decisions made in this report.

b. USDRE will assign a prime responsibility for action on every recommendation and decision in this report. In general, these assignments have been specified under the "Action Required" sections; however, in certain cases specific action responsibilities will be defined in the immediate future.

c. USDRE should consider utilizing a working group containing OSD and Service representatives to assist in implementation.

d. USDRE should consider utilizing a number of creative techniques to translate the intent of these recommendations to all levels. This could include formal training sessions, conferences, video taped training films, articles, and policy letters.

e. Both the SecDef and the DepSecDef must maintain a personal interest in ensuring that the changes are implemented, that there is continuous action to improve the acquisition process, that periodic reviews take place, and that all Services and OSD staff be made aware of the SecDef priority interest on this subject.

MAJOR ISSUES FOR DECISION

This section presents for decision the major issues identified in the Defense Systems Acquisition Review.

A. Issue: WHAT SHOULD BE THE SECDEF (DSARC) DECISION MILESTONES?

The current process provides four discrete SecDef decision points. All of the alternatives discussed below retain the current "milestone" process structure. However, all alternatives either de-emphasize or reduce the number of formal OSD level milestone reviews and SecDef decisions. Under some alternatives certain milestone reviews are delegated to the Service Secretaries. The Secretary of Defense decision authority and acquisition policy responsibilities are maintained and exercised through the PPBS process and/or by invoking explicit disapproval of proposed Service program acquisition decisions at any stage in the cycle. There are four alternatives shown schematically on page .

Alternative One (Page D-11) reduces the current four discrete SecDef decision milestones to three (with flexibility for only two) by altering Milestone Zero.

Milestone Zero SecDef review and decision is accomplished through the annual Planning, Programming and Budgeting System (PPBS).

Although Milestone I is retained, a SecDef decision would generally be necessary only when a program requires a significant prototype (Advanced Development) phase. When held, Milestone I documentation would be reduced.

Milestone II and III reviews would continue to be conducted by the DSARC with final approval action by the SecDef. Any pre- or post-Milestone III reviews deemed necessary would be held at the Service level except under unusual circumstances.

- Pro:
  - Reduced administrative burden.
  - Increased flexibility
  - Initial development program reviews and decisions are speeded.
- Con:
  - May be perceived as a lessining of SecDef control.

Alternative Two (Page D-16) reduces the number of formal SecDef DSARC reviews to Milestones II and III.

Milestone 0 would be reviewed by OSD during PPBS as in Alternative One above.

Milestone I would be delegated to the Service Secretaries. SecDef authority and oversight is maintained through notification of Service decisions with veto/disapproval authority if necessary.

Milestones II and III receive a full DSARC review and DSARC approval.

- Pro:
  - Further delegation of program responsibility and reduction in administrative burden.
  - Front-end process is speeded as in Alternative One.
- Con:
  - Further reduction in SecDef control over acquisition of major programs at front-end; may restrict SecDef ability to redirect due to program momentum.
  - May not be considered proper implementation of A-109 with regard to Milestone I (A-109 requires SecDef to retain decision authority at the four Milestone Decisions).

Alternative Three (Page D-19) reduces the SecDef decision milestones to two, but ensures full SecDef involvement in major program initiation, and improved program definition for program go-ahead. The first decision point, "Requirements Validation: (equivalent to combination of Zero and One), serves as a full DSARC/SecDef review and approval of major program initiation including threat, weapons concept, risk and schedule, readiness, and affordability goals. At this point a specific "not-to-exceed" dollar threshold is established which sets the funding to carry the program through Concept Validation and early Full-Scale Development activity up to the second decision point, "Full-Scale Development and Production." The goals to be achieved by, and the timing of the second SecDef decision point are defined at the first decision point.

The Program Go-Ahead, second SecDef decision point, occurs somewhat later than Milestone II in a "normal" program schedule, and it is selected to coincide with Preliminary Design Review. SecDef retains source veto/disapproval of a Service proposed action and program plans which shall include Full-Scale Development and Production, the program plan for Test and Evaluation, Support and Readiness, and the total acquisition strategy.

The production program review is delegated to the Service Secretary if there are no major changes to the program approved at the second decision point by the SecDef.

- Pro:
  - The administrative burden is reduced by fewer OSD level reviews.
  - The review levels are linked more closely to major expenditure increases.
  - Program commitment is delayed until program technical, performance and cost factors are

more accurately determined.
- Provides more efficient transition between development and production.

- Con: - Same Cons as above; in addition the divergence from A-109 language is more acute.
- No separate SecDef production decision required.

Alternative Four (Page D-24) eliminates all SecDef decision milestones and delegates total program review responsibility to the Service Secretaries. The DSARC could be invoked at SecDef discretion but generally the SecDef would exercise control and decision authority on a by-exception veto/disapproval basis. Milestone Zero would be conducted through the PPBS process as described earlier.

- Pro: - This alternative goes the furthest toward decentralization and reduction in administrative burden.

- Con: - SecDef direct control of major acquisitions is substantially reduced. Perceived violation of the intent of A-109 as regards agency head responsibility.

Action: USDRE revise DoD Directives 5000.1/2 appropriate to alternative selected.

Decision:

Current: (Four SecDef Milestone Decisions) _____

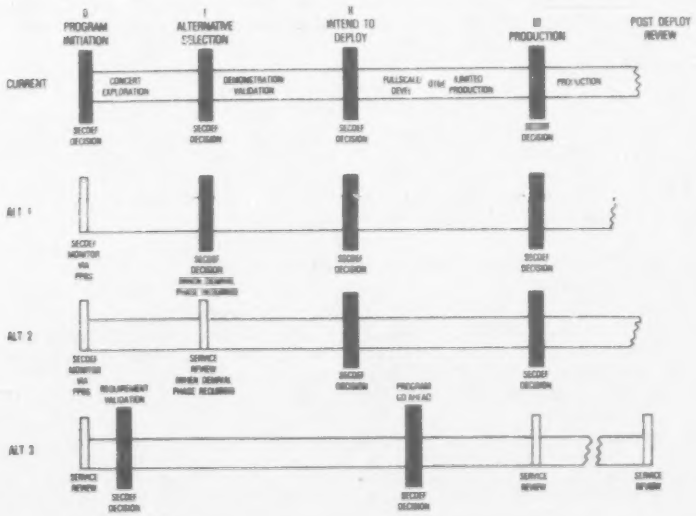
Alternative 1: (Three SecDef Milestone Decisions) _____

Alternative 2: (Two SecDef Milestone Decisions) _____

Alternative 3: (Two SecDef Milestone Decisions) _____

Alternative 4: (Zero SecDef Milestone Decisions) _____

ACQUISITION PROCESS ALTERNATIVES



B. Issue: SHOULD MENS BE ELIMINATED/REVISED?

Problem: The Mission Element Need Statement (MENS) is an internal DoD document used to support the SecDef decision at

Milestone 0. The MENS is required by DoD implementation of OMB Circular A-109 (1976) requirements to state needs in terms of mission and that SecDef should certify the need. The MENS was to be 5 pages or less. In practice staffing has increased and detailed justification information often requested by OSD has contributed directly to perceptions of growth in the "front end" of the acquisition cycle. There are 30 MENS currently approved.

Alternative One would require submission of the MENS (shortened or as currently required) no later than with the Service POM thus linking the acquisition and PPBS process. SecDef approval of MENS would be by accepting POM in the absence of specific disapproval.

- Pro: - Consistent with reduced SecDef review options.
  - Better integration of acquisition and PPBS processes as "new starts" would be reviewed in the context of the full Service/DoD budget formulation process.
  - SecDef decision authority retained, but exercised by exception in the budget process.
- Con: - Some reduction in SecDef visibility and influence over preliminary program plans.

Alternative Two would eliminate MENS document entirely; Congressional Descriptive Summary (and other POM documentation already required) would document Milestone 0.

- Pro: - Reduced paperwork, simplified program documentation.
- Con: - MENS has been given considerable visibility in OFPP, OMB, and GAO, could be viewed as circumvention of A-109 though MENS not specifically required by A-109.

Action Required: USDRE revise DoD Directive 5000.1/DoD Instruction 5000.2 appropriate for alternative selected.

Decision:

Alternative 1 DC
Alternative 2 _____
I Need More Information _____

C. Issue: SHOULD DSARC MEMBERSHIP BE REVISED?

Problem: Service Secretaries have statutory responsibility for the execution of contractual and financial responsibilities for their departments, yet they are not voting members of the DSARC. Service Chiefs also have no vote although they will be responsible for developing and operating the systems under consideration.

Alternative One would maintain current membership. (USDRE, Chairman; USDP; ASD(C); ASD(MRA&L); ASD(PA&E); Chairman, JCS; plus others in special cases).

- Pro: - Retains DSARC as a SecDef staff advisory council.
- Con: - Could place the DSARC in a position of recommending a position that is contradictory to that of the Service line executive responsible to the SecDef without explicitly reflecting the Service position.

Alternative Two would include the appropriate Service Secretary or Service Chief as full members of DSARC.

- Pro: - Provide SecDef with a broader advisory council.
  - Reduces adversary nature of current procedure.
- Con: - Reduce the independence of the DSARC as OSD advisor to SecDef.
  - Increases the size of the DSARC.

Action Required: USDRE revision of DoD Instruction 5000.2 required.

Decision:

Alternative 1 _____
Alternative 2 ✓
I Need More Information _____

D. Issue: WHO SHOULD BE THE DEFENSE ACQUISITION EXECUTIVE (DAE)?

Problem: Current policy requires that a DAE be designated by the SecDef to be the principal advisor and staff assistant for the acquisition of defense systems and equipment. The USDRE is designated the DAE. However, the scope of the function encompasses procurement of material to support and sustain the force. There is continuing competition between modernization readiness, maintenance of forces and sustainability. The USDRE has primary staff responsibility for force modernization efforts of DoD.

Alternative One would retain USDRE as the DAE.

- Pro: - The USDRE is clearly the OSD executive with the greatest technical knowledge and systems development expertise.
- Con: - Primary USDRE responsibility is developing weapon systems as opposed to operating, maintaining, or supporting the military force.
  - The effort to rationalize and fund competing programs suffers because USDRE could be an R&D proponent himself.

Alternative Two would designate DepSecDef as DAE.

- Pro: - Improved balance between modernizing and operating the force and a more coherent defense program could result from having DepSecDef chair both the DRB and the DSARC.
- Con: - Increases the level of DepSecDef involvement in the acquisition process. USDRE is the OSD technical and system development expert.

Decision:

Alternative 1 ✓
Alternative 2 _____
I Need More Information _____

E. Issue: WHAT SHOULD BE THE CRITERION FOR SYSTEMS REVIEWED BY DSARC?

Problem: Currently, there are over 50 major programs designated for DSARC review. Although dollar thresholds (currently $100M RDT&E or $500M procurement in FY 1980 $) are "guidelines," they

are generally the rule of thumb used to select major programs. Major program designation is derived by subjective judgment based upon joint Service participation, estimated funding, manpower and support requirements, risk, politics, and other Secretary of Defense interests.

Alternative One would continue present system.

- Pro: - The current system allows flexibility in designation, and does not force uncontentious programs to become major strictly because of large investment.

- Con: - The largely subjective criteria causes uncertainty, and may be susceptible to an arbitrary designation.

Alternative Two increases dollar guidelines for major system designation to $200M RDT&E and $1B procurement in FY 80 $.

- Pro: - The number of Service DSARCs and DSARC would be reduced approximately 25% while still insuring review of the most expensive major systems.
  - Uncertainty and the opportunity for arbitrary, unnecessary designation are reduced.

- Con: - Reduces number of major systems of significant investment not reviewed at Secretary of Defense level.

Action Required: USDRE revise DoD Directive 5000.1/DoD Instruction 5000.2 if Alternative Two is adopted.

Decision:

Alternative 1 _____
Alternative 2 ___X___
I Need More Information _____

F. Issue: HOW SHOULD THE DSARC/PPBS DECISION BE INTEGRATED?

Problem: It has been the perception that a DSARC endorsement and subsequent SecDef approval commits the SecDef/Service to fund the program as approved. This has led to confusion as to program status and stability. The DSARC process reviews single programs at significant milestones to determine readiness to proceed to the next phase. It is not feasible in that context to assess the financing of a major program vis a vis other Defense requirements. In contrast, the PPBS addresses all programs within a resource allocation framework without an in-depth review of technical issues and program structure. This "disconnect," the lack of explicit resource commitment (including support and manpower) resulting from a successful DSARC review and subsequent SecDef approval, is frequently cited as a flaw in the acquisition process.

Alternative One continues present practice.

- Pro: - Allows funding decisions during POM/budget development.

- Con: - Fosters program instabilities when DSARC program is not supported in PPBS cycle.
  - May void contract with industry.

Alternative Two resolves the interface problems by providing that programs reviewed by the DSARC will be accompanied by assurance

that sufficient agreed to resources are in the FYDP and EPA or can be programmed to execute the program as recommended. DSARC review would certify the program ready to proceed to the next acquisition stage. Affordability in the aggregate would be a function of the PPBS process.

- Pro: - This would lead to DSARC endorsement of fiscally executable programs and fosters program stability through resource commitment.

- Con: - Funding constraints may be set without regard to technical issues.

Alternative Three has the DRB assume the functions of the DSARC. This also makes DepSecDef the Acquisition Executive.

- Pro: - Decisions made by single body; no need to revisit in another forum.
  - Forges a closer linkage between the acquisition process and the PPBS.

- Con: - Current DPP membership not optimal for technical program reviews.

Action Required: Alternative 2--DAE enforce current DoD Directive 5000.1 affordability policy and USDRE revise 5000.1 to strengthen policy and eliminate confusion.

Alternative 3--USDRE revise DoD Directive 5000.1/DoD Instruction 5000.2 to reflect changes in role and membership of DRB.

Decision:

Alternative 1 _____
Alternative 2 JC
Alternative 3 _____
I Need More Information _____

G. Issue: PROGRAM MANAGER CONTROL OVER LOGISTICS AND SUPPORT RESOURCES

Problem: Three programming and budgeting problems are disincentives for program managers to provide system support and readiness.

1. Support program and budget requirements are based on experience related measures (unrelated to readiness) instead of a system's support requirements and readiness factors.

2. Budget review by appropriation categories. The fielding of a weapons system involves several appropriations: R&D, procurement, military construction, operation and maintenance and military personnel. Normally budget decisions in these accounts occur without visibility of the impact on individual system's support or readiness.

3. Budget execution. Some weapon support funds (spares, training, depot) are controlled by Service activities not responsible to the program manager. Sometimes priorities do not match the program manager's and funds are diverted to fund other requirements.

The Program Manager may not know of or participate in PPBS decisions which impact on his system's support. Once decisions are made on his system's support, they may be altered by an-

other activity during budget execution. This is particularly critical early in FSED as well as during the transition to production when large initial support resources are spent. At any given time, there would be an estimated 15-20 weapons total involved in transition. Procurement of spares with contracts separate from the system production contract increases spares costs.

OPTIONS: Alternatives 2 and 3 below would apply to selected weapon systems, those nearing production or in early production (15-20 systems). A two year trial is recommended for the selected alternative.

Alternative One would continue present management system (use traditional/experience related measures to review system support program and budget requirements; review budget by appropriation categories.

- Pro: - No cost of change.
- Con: - Disincentives for program manager to provide system support readiness remain. Budget review and budget execution problems are not addressed.
  - Little program manager input to support budget execution.

Alternative Two would have Services submit with the POM support resource requirements and readiness objectives, by weapon system, for systems entering/or in early production. Direct OSD to have a single review of support associated with individual systems.

Pro:

Gives more PPBS visibility of the combined effects of major support decisions on readiness objectives.

Removes PPBS disincentives by reducing independent budget/PPBS decisions without visibility of effect on program as a whole.

Would move in the direction of a more mission oriented budget decision process.

Con:

Some extra work for the reviewers.

Alternative Three is the same as two but would additionally develop procedures to give the PM more control of support resources, funding and execution. Services would develop implementing approaches to deal with the problems identified on this issue. The basic option should give the Program Manager a voice in support resource allocation and budget execution process through increased and centralized resource visibility and coordination by the PM on changes to his plans.

Pro:

Giving the Program Manager a voice (or coordination) in major support resource decisions for his program would improve responsibility.

Con:

A moderate step requires procedural changes and may or may not be effective. More direct control of many resources would unbalance the overall use of logistic resources by the Service.

Action Required: ASD(MRA&L) letter to Services stating objectives to give more incentives to PM. ASD(MRA&L) would work with the Services to define and evaluate implementing options. Initial letter can be prepared within 30 days.

Decision: Alternative 1___
Alternative 2___
Alternative 3 X
I Need More Information___

II. Issue: IMPROVING RELIABILITY AND SUPPORT FOR SHORTENED ACQUISITION CYCLE

Problem: In response to serious readiness and reliability problems in many of the systems we now operate, there have been increases in Service and OSD efforts to define reliability and support objectives and to demonstrate their accomplishment prior to major production commitment. Recent acquisition policies include this increased emphasis.

The new focus on shortening the development process is potentially in conflict with initiatives to improve reliability and support. Whereas the fastest acquisition approach involves initiating production prior to test of development models, the highest confidence of achieving reliability and other support goals in fielded hardware involves iterative design and testing before high rate production. A balance must be struck on each program. Many of the serious problems in current systems result from not striking the correct balance.

For those systems which are run on a fast track, there are requirements for additional early funding to design in reliability and support characteristics - including the need to pay this price in parallel or competing developments. Additional in-house talent must be brought to bear, and industry incentives need to be applied to avoid previously experienced support problems.

Because of the relative priority of reliability and support efforts compared to performance objectives, and the current shortage of in-house talent to address these problems, specific top management attention, priority and stress on support resources is needed.

Alternative One modifies the current acquisition procedures to require a specific early decision (circa Milestone I on many programs) on the approach, additional resources and incentives which will be used to balance the risks in the reliability and support area on each program. The vehicle for decision can be an acquisition strategy prepared by the Program Manager. This should include an option which goes as far as possible in extra efforts (design, parallel testing, contractual) to increase the likelihood of achievement of support objectives on concurrent programs.

- Pro:
  - Early decision on degree of concurrency sets in motion long lead steps to reduce support risks.
  - Results in conscious decision to balance all the objectives in the light of Service and DoD priorities.
  - Gets additional early resource needs considered.
  - Provides clear support objectives to PM.

- Con:
  - Will require more up-front funds. Will be viewed by some as addressing support too early.
  - Additional responsibility for PM (but the clear decisions may be helpful).

Alternative Two shifts more of the focus to fixing reliability and support problems experienced in fielding the system by subsequent redesign of production hardware and incorporation of fixes. Rely more on interim contractor support while problems are being fixed.

- Pro:
  - Easier to do.
  - Leaves program manager freer to make the trade-offs without Service involvement.
- Con:
  - Requires more funds to fix later. Historically difficult to get funds for major fixes. Less likelihood of avoiding support problems.
  - Congress will criticize the early fielding problems.

Action Required (If Alternative One is selected): USDRE issue guidance adding early assessment of support options to the current procedures. This could be part of a decision on overall acquisition strategy. Additionally request the Services to revise and develop support related planning guidelines.

Decision:

Alternative 1 X
Alternative 2 _____
I Need More Information _____

MULTIYEAR PROCUREMENT

Mr. CARLUCCI. We have one before us right now that deals with multiyear procurement. That is a rather complex issue where we need two authorities. We need to raise the cancellation ceiling limitation from $5 million to what we would hope to be in the neighborhood of $100 million and because we have authority to enter into multiyear contracts now but with such a low cancellation ceiling it can only be used with small programs. Consequently, we don't get the kind of savings we anticipate could be gotten from multiyear procurement, those are estimated somewhere between 10 and 15 percent of the contract.

We also need authority to use O. & M. money for multiyear procurement in the United States. That is being dealt with on the authorization bill.

OVER-REGULATION

There are a host of others. One of the most complicated has been referred to in the dialog today, and that is other programs that impact on the procurement process, programs with valid social impacts, the cumulative impact of which drives out contractors and reduces competition through over-regulation and pushes costs up. In drawing up these initiatives, the largest single complaint from industry was over-regulation. Those are the kinds of things in which there is room for enormous legislative initiative.

Senator MATTINGLY. Thank you very much.

Chairman HATFIELD. Senator Bumpers.

EFFECT OF DEFENSE SPENDING ON ECONOMY

Senator BUMPERS. Mr. Chairman, I will try to be brief, but I want to talk about something that is a slightly different aspect of this, and that is the effect of all this spending on the economy.

Mr. Secretary, in Senator Hatfield's opening statement he said we are preparing to spent $1.46 trillion over the next 5 years. I am comparing that to previous estimates of $1.293 trillion. Let's assume $1.46 trillion, or approximately 1½ times the national debt. What inflation rate does that anticipate for procurement in each of the next 5 years? I know it is 8.7 percent for 1982.

Mr. CARLUCCI. 1982–83, 7.3; 1983–84, 6.2; 1984–85, 5.5; 1985–86, 5.5.

Senator BUMPERS. Mr. Secretary, can you tell me what it has been each of the last 3 years?

Mr. CARLUCCI. Well, it has been far in excess of that. I would have to submit that for the record.

[The information follows:]

PROCUREMENT EFFICIENCIES AND ECONOMIES

1979–80; 9.7; 1980–81, 8.0; 1981–82, 8.6.

PROCUREMENT INFLATION RATE

Senator BUMPERS. Well, it is my understanding in 1980 it was 19 percent. Does that sound about right?

Mr. CARLUCCI. Are you talking about just procurement?

Senator BUMPERS. Yes, I am talking about procurement.

Mr. TRIMBLE. We had a detailed analysis run by a private accounting firm, and it came out between 12 and 14 percent.

Senator BUMPERS. Between 12 and 14 percent?

Mr. TRIMBLE. That is correct.

Senator BUMPERS. I am going to report this to Senator Nunn. He is the one that gave me the 19-percent figure.

Mr. BORSTING. That study was done just for certain areas of defense procurement. It emphasized the aircraft industry. The net figure we are concerned with, Senator, is the overall defense procurement.

PROCUREMENT INFLATION RATE FOR 1981

Senator BUMPERS. What do you anticipate the procurement inflation rate for 1981, the current year, will be? Do you have a projection on it?

Mr. BORSTING. We have the projection given by the President's overall procurement.

Mr. CARLUCCI. It is 10 percent.

Senator BUMPERS. Let me just ask you this. Do you agree with these figures? Obviously these figures were probably not designed exclusively by DOD, but do you think it is reasonable to assume that, for example, next year the inflation rate will be 8.7 percent for procurement in the Defense Department when it has been far in excess of that in the past?

Mr. CARLUCCI. Let me say, Senator Bumpers, that we enthusiastically support the President's program. Until the President gets the inflation rate down, we establish a benefit in terms of cost escalation. We support the estimates that the President has laid forward.

Senator BUMPERS. In other words, what you are saying is if the President gets his program, the inflation rate will go down, and yes, you do think an 8.7 percent rate next year and on down to the 5.5 rate in 1984 is realistic?

Mr. CARLUCCI. As an overall goal we think it is attainable.

Senator BUMPERS. If that turns out to be wrong, the $1.46 trillion is going to be substantially larger than that. For example, if it turns out to be an 8.7 percent average over the next 5 years, the defense budget is going to run closer to $1.7 trillion or in excess. If this trend continues it is going to be disastrous.

Mr. CARLUCCI. Inflation is a very real problem. There is no question about it. We are encouraged by data coming out on inflation in the past couple months. We hope the targets are realistic. If it can get down lower than that we stand to benefit.

Senator BUMPERS. Senator Huddleston and some others have made the point that while the players change, the game remains the same. Ever since I have been on the Appropriations Committee we have gone through this process. The more things change the more they seem to stay the same as far as procurement is concerned. But if I were just

going to make an observation, one observation, it would be that Defense, rather than going ahead and procuring what they are procuring at a fairly reasonable rate, always seems to want to get into the new, exotic technology which is very costly, and often of marginal value. The Post reported the other day, for example, that the Defense Department was willing to forego procuring the F–15 in order to get the B–1 bomber. Is that an accurate statement?

Mr. CARLUCCI. No.

Senator BUMPERS. You would not presume to cut back on F–15 procurement for any reason; is that correct?

Mr. CARLUCCI. No, that is not a correct statement either. I don't know where the Post got their information, but no decision has been made on the B–1 so it is hard to make a judgment. We haven't decided whether we are going to go for the B–1 or not.

Senator BUMPERS. I am just trying to figure out whether that was the Air Force that said that. Well, the Air Force said that, but the Secretary is not thinking that.

Mr. CARLUCCI. We haven't made a judgment. We are just starting the budget review process, and it is abundantly clear to me at the outset of the process the Defense Department isn't going to be able to do everything it needs to do. Just the tail on the programs we started in 1982 will be some $2 to $10 billion over our current guidance, we are going to have to squeeze somewhere. What I would hope to avoid is the kind of stretchout that leads to cost escalation, as I said in the dialog with Senator Huddleston and Senator Stennis.

Senator BUMPERS. When I first came to the Senate I went down to Aberdeen, and I drove the XM–1 all over Aberdeen. It had everything—power steering, power brakes, air-conditioning. At that time the procurement cost on that was estimated to be—and I don't think Chrysler had gotten the award at that time—between $600,000 and $700,000. Now we are up to $2 million for each. Is that right?

Dr. DELAUER. About that.

JUSTIFYING INCREASED COSTS

Senator BUMPERS. We have just started procuring the M-1. Let me ask you this. Under your present procurement policies and your contract with Chrysler, what, if any, cost limitation can you put on that? If they come back next year and say the cost is going to be $2.5 million, do they come and show you their increased cost? Do they have to come to you and justify why they have to have more money for that?

Mr. CARLUCCI. I am not familiar with the details of that contract or what the share line is or what the incentives might be, nor am I familiar with what percentage of that cost escalation might be attributable to inflation.

Senator BUMPERS. Would it have been terribly cost ineffective to have awarded that tank contract both to General Motors and Chyrsler?

Mr. CARLUCCI. That is a judgment you have to make at the time. It may well be cost effective. But, as Dr. DeLauer pointed out, that kind of competitive arrangement requires substantial increased funding at the front end.

CASTING CAPABILITY IN UNITED STATES

Dr. DeLauer. The problem, Senator Bumpers, would be that the tank belongs to the Government. The other thing is we have a shortage of casting capability in this country, and armored cast has gone along with the tank. Just to couple that up with something the Secretary said about the other regulations, the casting capability in this country has gone right down the drain because of the way the Clean Air Act has been administered, and not only in defense but nondefense. Most of the castings now are done offshore. Your piston rings, most are cast offshore.

Senator Bumpers. Where?

Dr. DeLauer. South America, Brazil.

Senator Bumpers. Is that where we get them?

Dr. DeLauer. Not for the tanks, no. We have a capability for that, but it is a limited capability. That is part of our problem. Now on the big program like the tank, let me make a point there of that chart behind Senator Proxmire. Watch the abscess of his 10-year increment and the big change going up every 10 years. You could have predicted if you are going to develop and build that tank in the middle 1980's, and that tank was laid down in the middle of 1974, when you looked at it that it was going to cost that amount. The same with the chart behind Mr. Rudman on the fighting vehicle. We looked at the cost of the fighting vehicle. We reviewed the Army's program in 1975 in A–109 and we put it right on that mark. We have every single fighting vehicle they had built. We said if you are going to build that, it is going to cost that amount. They had not budgeted that. Why? Because it would blow the budget. Our problem is to select out the programs we can't afford early before we spend too much. That turns out to be a problem, however, because we are going to gore some favorite oxes.

F–15 PROCUREMENT

Senator Bumpers. Are we procuring the F–15's?

Dr. DeLauer. Yes, we are.

Senator Bumpers. What are we paying for them now?

Mr. Carlucci. We will get that for the record.

[The information follows:]

Cost of the F–15's

The unit flyaway cost for the fiscal year 1981 buy of 42 F–15 aircraft is $19.7 million.

Senator Bumpers. Well, it is close to $30 million.

Dr. DeLauer. About $20 million a piece.

F–18 DEVELOPMENT

Senator Bumpers. Let's take the F–18. I was in Iran about 4 years ago and the Shah wanted to buy the F–18. He was pushing for all the F–18's he could get, and we hadn't produced the first one. But in any event, that plane at that time was expected to cost about $12 million—that is 4 years ago—and the plane is up to $30 million and we haven't produced it yet.

Dr. DeLauer. That is right.

Senator Bumpers. I assume that was to be on the low end of the mix on the carrier with the F–14, the F–14 being the high end.

Dr. DeLauer. You are right.

Senator Bumpers. On the M–1, what I really want to get to is a prediction. I will make this prediction and close. Chrysler has the contract to produce that tank, and I will wager you that the price of that tank goes up over 20 percent a year for the next 5 years, and I don't know why. I can't prove that and you can't disprove it. But I am just saying that tank will be at $3 million very shortly, yet they have a sole source contract to produce it. Do you agree with that or disagree?

Mr. Carlucci. I am unwilling to make that kind of prediction. I assume your estimate includes inflation.

Senator Bumpers. Take inflation—take your inflation rates. [Laughter.]

REASONS FOR COST GROWTH

Mr. Carlucci. We did review our 47 major programs covered by the December 31, 1980 Selected Acquisition report which reflected the total cost growth of 129 percent over the milestone two estimates, and we broke down the reasons for cost growth. Forty-one percent of all cost growth is due to quantity and schedule change. So we have two big elements. You have inflation and then you have the issue we have been discussing all morning—the quantity of the buy. Every time you change that, either way, the cost goes up. So we are kind of caught in the middle.

Senator Bumpers. Mr. Chairman, one final observation and I will quit.

Chairman Hatfield. Brief.

LIFE CYCLE COSTS OF AIRCRAFT

Senator Bumpers. I just think, particularly with aircraft, you consistently underestimate the life cycle costs in order to try to keep a limited number in the air. Even the B–52's, a lot of those have to be virtually handmade. But every time you underestimate the life cycle, the total cost goes up, which the airline companies don't do. They estimate the life cycle costs and buy the spare parts on the front end, and I don't understand why the Government can't do the same thing.

Thank you.

SUBMITTED QUESTIONS

Chairman Hatfield. On that happy note, we will bring this panel to a close. Mr. Secretary and gentlemen, we appreciate very much your touching on this this morning. We will submit to you additional questions which we would like to have you respond to, since there has not been sufficient time to pursue a lot of these questions as we would like. We do appreciate your contribution today.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

Questions Submitted by Senator Hatfield

Procurement Efficiencies and Economies

Senator Hatfield: History indicates that all of the sound management techniques in the world -- including zero based budgeting decentralization, Blue Ribbon Panels, Defense Resources Boards, etc. -- are no more than gimmicks unless there is strong and convincing leadership in the Department of Defense. To date in the budget process, I have seen little evidence that Defense programs are receiving the same close scrutiny for cost-effectiveness as on the domestic front. What are your plans to convince the Service bureaucracy that you are serious about getting control of these runaway programs?

Answer: Indeed we are quite serious about our objective to limit excessive costs and to indicate to all Department of Defense components the serious nature of our intention to achieve further savings and efficiencies. We have undertaken a major review of the Defense acquisition system designed specifically to reduce cost, make the acquisition system more efficient, increase stability of programs, and decrease acquisition time of hardware. This effort is real, tangible, and it is working. Also we are introducing into the budget review process for the first time formal requirements to report and measure the effect of dollar savings. Both the Secretary and I have emphasized many times our strong intent in this regard.

Procurement Regulations

Question: The massive set of Department of Defense procurement regulations which control the actions of all defense contractors, consume over 16,000 pages of text, plus hundreds of pages of appendices. In spite of these incredibly detailed requirements, defense contractors are rarely classified as a regulated industry. Has there not been a tendency to over-regulate some aspects of the defense industry, as in other sectors of our economy?

Answer: Any page count of Department of Defense procurement regulations must not ignore the fact that a substantial number of those pages are dedicated to maintaining the integrity of the procurement process and are intended to assure a fair and equitable opportunity for all qualified contractors to compete for defense contracts.

Other procurement regulations generally fall into two categories: (1) those which are intended to deal with the unique aspects of military equipment and the environment it has to operate in, and (2) those procurement regulations which implement the new legislation passed by Congress each year. Regulations are necessary to assure that these laws, which deal with everything from status reports on individual contracts to assistance for small and economically disadvantaged business enterprises, are complied with.

In no way should the content or intent of DoD procurement regulations be interpreted to be the same as those regulations which cover what are normally understood to be regulated industries such as transportation or public utilities where the intent of the regulation is to protect the public interest in situations such as those where a firm may have a natural monopoly.

Inflexibility in Application of Regulations

Question: Numerous studies claim the procurement standards are too detailed, and are applied uniformly, without respect to size and scope of program requirements. This is said to drive up significantly the cost of weapons systems. Please respond.

Answer: We are aware of the claims that procurement regulations are too detailed and are, at times, applied without available and appropriate flexibility. We have already taken action to improve the acquisition process and our specific directions to reduce the number of DoD directives and provide greater flexibility for program managers by delegating more authority, responsibility, and accountability are intended to come to grips with this problem. However, we are not sympathetic to vague and unsubstantiated claims of increased costs of regulations where the intent of making such claims appears to be an effort to avoid oversight and accountability.

Status Reports (Nunn Amendment)

Question: If we are ever to gain control of these massive cost overruns in weapons systems, we must establish some type of accountability with the Service and the program manager. Congress recently passed an amendment offered by Senator Nunn, which established a threshold of cost increases for defense spending. The amendment cuts off all spending authority for any program which exceeds a 15 percent cost overrun. The Department must return to Congress for authority, and the program manager is held accountable. It is my understanding that DoD strongly objects to this provision. Please explain.

Answer: Of paramount concern is the fact that Section 922 would require a report whenever the program manager "has reasonable cause to believe at any time during any quarter of Fiscal Year 1982" that thresholds will be breached. Inasmuch as breaches of thresholds may first be identified during DoD's annual Planning, Programming and Budgeting Process and before we have made final decisions regarding DoD's next budget, the reports could be premature. In many instances, we must choose among alternatives which may or may not breach thresholds. This unit cost report could either preempt our decisions or be in error depending on the course of action selected. In addition, any such report submitted would conflict with the Selected Acquisition Report (SAR) required by Public Law 94-106. The SAR reflects the status of the program contained in the last budget submitted to Congress by the President. This conflict arises from the fact that while the Congress is deliberating next year's budget (e.g., FY 1982) we are preparing the subsequent budget (e.g., FY 1983).

We are also concerned with the wording which would require the Secretaries of the Military Departments to submit reports directly to the Congress. It is our responsibility to approve or disapprove major systems acquisitions within the Department, and we could be placed in an untenable position of the Service Secretaries were to submit any such reports directly to the Congress.

We too are concerned about costs and we have taken a number of initiatives to minimize future cost growth in our weapons systems acquisition process. However, in holding Service Secretaries and program managers accountable for cost growth, we do not expect them to answer for the impact of inflation. As such, cost growth should be measured in constant dollar terms.

In addition, Section 922 would require DoD to suspend obligations and expenditures on a program when a threshold is breached and the responsible Secretary has not reported on time to the Congress. We realize that the motivation for this provision is more effective cost

control. But we can see many legal problems developing as a result of the Section 922 requirement to terminate his contractual obligations. In addition, the suspension of funding could increase costs even more and delay the availability of our much needed weapons systems.

We recognize that the SAR's can be improved to meet congressional needs, and we are committed to working with the Congress to make such improvements. Much of what is required by Section 922 could be included in the SAR reporting system which can be modified to meet the specific needs of Congress in its oversight capacity. It is our strong conviction that the details of such a revision should be developed on a cooperative basis as we have done in the past.

DoD Procurement Policy

Senator Hatfield: In DoD's cumbersome requirements process, a weapons system is often in mass production with several billion dollars spent, before operational testing of the concept begins. It appears that we often rely on the contractor's promises of performance, with little data of our own to assure the success of these multi-billion-dollar systems. This has resulted in immense technical problems with some systems and commensurate cost-overruns. Is DoD planning to give more emphasis to testing before actual production work begins?

Answer: The DoD requirements, development, and test verification process is specifically structured to preclude the mass production of weapon systems prior to the conduct of operational testing (OT). This has been, and today continues to be, the procedure followed within DoD and prescribed by the applicable DoD Directives which indicate "before Milestone II decision OT&E will be accomplished as necessary to examine the operational aspects of the selected alternative technical approaches and estimate the potential operational effectiveness and suitability of candidate systems...." Further, "initial Operational Test and Evaluation must be accomplished prior to the Milestone III (Production) Decision."

As a matter of clarification it must be stressed that DoD policy does not and could not practically require the completion of all OT prior to production. A necessary balance must be struck between risks associated with new weapon acquisition and the continual need to supply field commanders with effective offensive and counter-threat equipment. Consequently, Initial Operational Test and Evaluation (IOT&E) is started prior to making a production decision and results from (IOT&E) then support a production decision by the Secretary. Further, the initial, (low rate) production then supports the conduct of extensive OT using representative configuration systems.

Based on the recommendation of the recently completed acquisition study, DoD is now reviewing the entire system acquisition process--including the test and evaluation or performance verification procedures. Our initial review leads us to believe that, for some programs, the T&E cycle can be shortened by utilizing more definitive test planning early in a system development scheme and by better coordinating the developmental and operational testing programs to eliminate potentially duplicate effort.

We believe these efforts will permit early and accurate quantification of procurement risk, support our desire to shorten

the acquisition cycle, maintain cost and schedule control, and balance these factors with the need for timely development of effective weapons.

Council on Economic Priorities

Question: A newly released study by the New York City-based council on Economic Priorities syas that "a powerful flow of people and money moves between the defense contractors, the Executive branch (DoD and NASA), and Congress, creating an 'iron triangle' on defense policy and procurement that excludes outsiders and alternative perspectives." Please comment.

Answer: We do not disagree that people move between the defense industry and the Executive and the Legislative Branch of the Government nor do we contest that funds are appropriated by the Congress and expended by agencies such as DoD and NASA for goods and services produced by private industry. However, we would ask some questions of those who contend that there is a direct and sinister relationship between people who move and the money which moves or that there is an "iron triangle." First, in a free society, would it be reasonable to expect people to not move between the points of this postulated triangle? If one works in some capacity (in or out of government) on national defense matters, is it reasonable to make an a priori assumption of a conflict of interest that would preclude any job mobility outside of one's initially chosen organization? Second, should we assume that "outsiders and alternative perspectives" are necessarily useful, germane, or even relevant just because they represent someone who is not associated with defense? It would appear that alternative perspectives are to contribute to the defense effort, one should expect that the outsider who wishes them to be considered must be somewhat knowledgeable about defense matters. If we inhibit job mobility, how can we expect a continuous flow of useful ideas? Practical new ideas and fresh perspectives are always welcome and we believe that numerous opportunities exist now to offer them for consideration. The very fact that such councils as you refer to exist and try to influence public opinion is evidence of the checks and balances in our pluralistic society which make it unlikely that any "iron triangles" are created. In addition, if there were such unanimity regarding defense policy among defense contractors, the Executive Branch, and Congress as this council seems to suspect, then why is so much effort expended within DoD and with the Congress to debate defense policy and procurement? We would invite anyone who cares to obtain a factual picture of this process to examine the record on public debates of the annual budget submiss[illegible] and the investment policies associated therewith.

Multiyear Contracting

Senator Hatfield: What assurances can you give that the factors that caused five year plans to change in the past will not cause them to change in the future?

Answer: While we can give you no absolute assurances, we are committed to minimizing turbulence within our weapon system programs through improved planning. We are endeavoring, in our front-end planning, to stabilize requirements at efficient and economical production rates. This stability will complement our efforts to enhance the use of multiyear procurement.

Multiyear Contracting

Senator Hatfield: Under these circumstances, what criteria do you prescribe for determining eligibility for multiyear contracting, and how extensively do you believe multiyear contracting can safely be used?

Answer: The following criteria will be used in the process of deciding whether or not a program will be considered for multiyear application: benefit to the Government, such as substantial cost avoidance when compared to annual contracting methods; stability of the requirement; stability of the funding; stability of the configuration; degree of confidence in both contract costs and anticipated cost avoidance; and the degree of confidence in the contractor's capability. The scope of application of multiyear contracting to our weapon system programs must be determined on a case-by-case benefit/risk analysis.

Senator Hatfield: Doesn't multiyear contracting carry with it the necessary implication that the flexibility of both the Administration and the Congress to adjust to future threats, technologies, and policies is delimited?

Answer: Multiyear procurement is not the way to contract for many of our programs. The amount of funds that would be committed for those programs suitable for multiyear procurement would not unduly restrict our ability to respond to changing circumstances. In selected cases, the savings this method of contracting offers; the need to improve our defense posture; the ability to assure that necessary materials and long lead time components are available for outyears; and the opportunity to enhance productivity are significant benefits that outweigh potential risks.

Questions Submitted by Senator Proxmire

Comparative Dollar Cost Defense Budget Methodology

Mr. Proxmire: Mr. Secretary, there is a continuing controversy about the way we estimate Soviet defense expenditures. We cost out Soviet spending with U.S. dollars at U.S. rates. If we applied the same methodology to the Chinese military with its large standing army, I am told that the result would be that the Chinese are spending as much as the United States.

Clearly that would not make them a match for the United States, and it would seem to point to a serious flaw in our way of estimating.

A. In your opinion doesn't the dollar costing method distort the true military relationship among the United States, U.S.S.R., and China?

Answer: We must agree that dollar evaluations alone do not measure the relative capabilities of U.S., U.S.S.R., and Chinese forces. A single measure is, however, needed to show the importance placed on the elements of defense programs so that different programs can be evaluated individually and compared with one another. The dollar is often used as that measure because it is familiar to U.S. policy makers and because U.S. defense planning is generally done in dollar terms.

Dollar costs can be used to compare the overall magnitudes and trends of defense activities in two countries. Dollar costs can have an important advantage over many other measures--such as the

numbers and types of weapons--in that they permit aggregate comparisons across the various force and mission area balances that we consider.

Dollar costs, nevertheless, are not estimates of actual Soviet or Chinese spending, but a rough measure of the size of the Soviet or Chinese defense program, using as a unit of measure the cost of reproducing their program in the United States.

Estimates of Soviet and Chinese activities in dollars don't tell us what their budgets are or what their defense efforts cost them. It does provide an estimate of the size of Chinese and Soviet efforts as compared to the U.S. defense effort by determining what it would cost in dollars to replicate their forces in the U.S. and man and operate them as the Chinese and Soviets do.

General Slay's Views

Question: Mr. Secretary, General Slay who will testify later today asserts that the defense acquisition system of today is inefficient. In what ways would you agree or disagree with General Slay?

Answer: Since General Slay has not yet testified, we are not in a position to agree or disagree with what he may say. With regard to an assertion that the defense acquisition system is inefficient, we have indicated above that we have directed changes to improve the acquisition process. To the extent we perceived the necessity to make changes, we would agree that inefficiencies existed in the defense acquisition system.

Procurement Efficiencies and Economics

Senator Proxmire: Mr. Secretary, recent information indicates that if anything, the Soviets have stepped up their production rates on conventional arms and they are now outproducing the US by increasingly large margins in tanks, artillery, helicopters, and other armament.

The reforms promised by your admininstration will help to some extent but will not come close to matching Soviet production levels in any of these categories, even under the most optimistic US assumptions.

My question is: Do we need to match Soviet production rates and if so just how are we going to do it without a mammoth expansion of the defense industrial base?

Answer:

The US peacetime production levels are geared to weapon systems acquisition requirements for support of a defense program to execute US national strategy. As a general rule, only where our requirements dictate will US weapons systems production approximate that of the Soviets. We do not attempt to "mirror image" Soviet production which supports their strategy.

Our administration is deeply concerned with the adequacy of the industrial base and we are examining, on a case by case basis, its peacetime capacity and mobilization potential with an eye toward contingency plans for selected expansion.

Tactical Combat Aircraft Turnover

Senator Proxmire: Mr. Secretary, are we purchasing fewer tactical aircraft in any given year than we lose to attrition and old age?

Answer: At present the DoD is procuring more tactical combat aircraft than are being lost in accidents or retired. However, aircraft take about two or three years to enter operational service from the time they are funded. Thus, low production rates during the mid-1970s led to a situation running for several years during the later 1970s where the Air Force and Navy were not delivering as many new aircraft to operational units as were being lost through all causes. This situation for both services is being reversed beginning in FY 1982 as more aircraft are delivered than are lost. The higher procurement rates of the late 1970s and early 1980s--together with Navy service life extension programs--will permit deliveries to exceed losses into the mid-1980s. On the other hand, potentially serious force aging problems will develop later in the 1980s that must be considered now as the mix of aircraft types and production rates is determined. The procurement levels projected by the previous Administration were inadequate to prevent increased average aircraft age and likely force structure reductions by the 1990s. More specific aspects of Air Force and Navy planning are discussed in the following paragraphs.

The Air Force since FY 1979 has delivered more tactical combat aircraft annually than it lost either through accident or retirement. Comparatively high annual procurement levels of the late 1970s for the F-16, F-15, and A-10--totalling roughly 300 aircraft per year--will permit force expansion into the mid-1980s. Projections of net turnover of gains and losses for the later 1980s and beyond are somewhat uncertain.

The Air Force has an inventory of over 1,000 F-4 series fighters and roughly 350 A-7 series attack aircraft, all delivered during the late 1960s and early 1970s. These aircraft will reach an average of 20 years' age at the beginning of the 1990s. Procurement needed to sustain the future 40-wing equivalent force structure goal (or increase it, if policy decisions to this end are made) would depend in part on the need to replace this large number of F-4s and A-7s at the end of their useful lives. Recent experience has been that 20 to 22 years is about as much as can be expected for a tactical aircraft. Both material aging and combat utility must be addressed, varying by aircraft type. Longer lives are possible for F-4s and A-7s, but depend upon dedication of the support base to sustain these aircraft above previous levels of commitment to aging equipment. Accordingly, it seems likely that tactical combat aircraft production into the mid-1980s will have to be sustained above the 96-per year level projected through the late 1980s by the previous Administration.

The deliveries of Navy and Marine Corps tactical aircraft continues through FY 1981 to fall below the level required to offset actual peacetime retirement and attrition. This situation will begin turning around in FY 1982 and the trend of increasing average age of Navy and Marine tactical aircraft inventory should be arrested by the mid-1980s. The near term reduction in inventory losses is due primarily to service life extensions of existing aircraft, not increases in annual deliveries of new aircraft. New deliveries should increase considerably in FY 1983 and 1984, permitting the Department of the Navy to begin retiring those aircraft previously extended past their expected normal service life. A future expansion of Navy force structure will require additional

procurement above the previous Administration's program if the modernization of the current inventory is to continue as now programmed.

Both the Air Force and Navy aircraft procurement plans suggested here, running above the previous Administration's projections, will have to take account of various efficiencies and economies if they are to be affordable. Measures also will be taken to ensure that aircraft types chosen for production are affordable both in production cost and operation and support.

Use of PL 85-804 by DoD

Senator Proxmire: Is it the intention of this Administration to make use of PL 85-804 to bail out defense contractors who cannot meet their defense commitments or find themselves in financial trouble, or do you believe in the marketplace being allowed to work its will?

Mr. Carlucci: The Department of Defense has used the provisions of PL 85-804 only under circumstances where extraordinary relief was indicated, as provided by the law.

It is neither the policy nor the intent of DoD to "bail out" contractors under the provisions of PL 85-804, nor is the law intended to be used for that purpose. This Administration does not plan to change the current DoD policy.

Question. Does this Administration support the bailout of the shipbuilding firms approved by the Carter Administration which cost the taxpayers over $500 million in emergency payments based on unaudited charges to the government?

Answer. The issues regarding the 1978 shipbuilding claims settlements were fully explored during Congressional Hearings attendant to the Public Law 85-804 settlements, and it would serve no useful purpose for this Administration to reopen those issues. This Administration is committed to pursuing mutually equitable contracting policies and practices which will both minimize claims and offer competent, productive contractors the opportunity to make a profit. Any claims submissions received will be reviewed and processed in accordance with the Defense Acquisition Regulation (DAR) and applicable case law after receipt of required documentation.

NONDEPARTMENTAL WITNESSES

THE ANALYTIC SCIENCES CORPORATION

STATEMENTS OF:

JACQUES S. GANSLER, AUTHOR OF THE DEFENSE INDUSTRY AND FORMER DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR MATERIAL ACQUISITION

GEN. ALTON SLAY (RETIRED USAF), FORMER COMMANDER OF THE AIR FORCE SYSTEMS COMMAND AND DEPUTY CHIEF OF STAFF FOR RESEARCH AND DEVELOPMENT, USAF

PREPARED STATEMENTS

Chairman HATFIELD. I would now like to invite Dr. Jacques Gansler and General Slay to come to the table. I will ask that we hear the testimony from both of these gentlemen before we start questioning.

We welcome Dr. Gansler and General Slay. We have your printed statements, which will be incorporated in the record, and you may proceed to summarize or highlight. Then we will ask you questions jointly rather than dividing the questions at this time.

[The statements follow:]

PREPARED STATEMENT OF DR. JACQUES S. GANSLER
VICE PRESIDENT
THE ANALYTIC SCIENCES CORP (TASC)

PROCUREMENT PRACTICES OF THE DEPARTMENT OF DEFENSE

At the request of the new administration, and with the approval of the Congress, hundreds of billions of dollars more will be spent -- over the next few years -- on badly-needed military equipment. But, only with changes in defense procurement practices will taxpayers get their money's worth, and our national security posture be strengthened. Without such changes, the recent trends -- in diminishing economic efficiency and declining strategic responsiveness of the defense industrial base -- indicate that these increased dollars will mostly result in a rise in the price of military goods; rather than in the additional quantities of required equipment.

Consider the trends over the past five years:

1. Each year, we produce fewer units of military equipment -- fewer planes, fewer ships, fewer guns -- while spending more and more real dollars for them.

2. We don't have the military forces in being, the trained personnel, the spare parts, or the war reserve materiel needed to sustain an extended military conflict.

3. The House Armed Services Committee recently declared, "The general condition of the defense industrial base has deteriorated and is in danger of further deterioration." Yet, there has been no planning or expenditure of resources to promote rapid industrial responsiveness to increased production demands. Production surge and mobilization potential are important parts of an industrial nation's deterrent posture, however, today -- even with unconstrained expenditures -- it would take <u>years</u> before significant production

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*Dr. Gansler is Vice President, The Analytic Sciences Corp. (TASC), and is a former Deputy Assistant Secretary of Defense (Material Acquisition). He is the author of a recent book <u>The Defense Industry</u> (MIT Press, October 1980).

increases could be realized from the defense industry.

4. The R&D area is also faced with serious problems. More and more R&D dollars are going to fewer and fewer large, expensive, long-duration development programs. This cuts down options and greatly reduces the chances for technological innovations; especially those coming from the small, inventor-led companies.

Just throwing money at the defense industry will not solve the current problems. Rather, it is imperative to address the bottlenecks and trends directly; to make significant structural adjustments in the industry; to change the way defense business is done; and to plan (in peacetime) for potential surges in production of selected military equipment should future needs arise. These changes can be made within the desired free enterprise, private ownership, democratic system; and must be made if we are to get the necessary military equipment for the increased budget dollars -- rather than continue to simply feed the inflationary spiral.

These problems are not new. The Joint Committee on Defense Production, led by Senator Proxmire, first raised these issues in a series of hearings and studies conducted over five years ago. The 1976 Defense Science Board Summer Study report, and my own paper in the Harvard Business Review of May-June 1977, entitled "Let's Change the Way the Pentagon Does Business," also highlighted some of these problems. Yet, only very recently has the seriousness of these problems been widely recognized and accepted. Specifically, four reports on the subject -- from a wide diversity of backgrounds -- appeared at the end of 1980, namely:

- House Armed Services Committee, Industrial Base Panel Report, "The Ailing Defense Industrial Base: Unready for Crisis," December 31, 1980. (Chairman, The Honorable Richard Ichord.)

- Defense Science Board Task Force Report on Industrial Responsiveness, November 21, 1980. (Chairman, Robert Fuhrman.)

- The Air Force Systems Command statement on defense industrial base issues, November 13, 1980. (General Alton Slay.)

- The Defense Industry, J. S. Gansler, MIT Press, October 1980.

Unfortunately -- in spite of the publication of these four reports -- many people still assume, incorrectly, that the excess capacity in the defense industry and the unemployed labor in the country can be productively harnessed to pour out defense items merely by increasing the defense budget. In fact, the opposite appears to be the case. Even under today's conditions of unemployment and available plants and equipment, the aerospace industry, for example, would require over three years to increase production significantly, from existing lines. To better understand this dilemma, consider the bottlenecks:

- Labor. Currently, despite high unemployment in other fields, there is a significant shortage of defense-related engineers and skilled laborers, which is expected to get worse as the aging defense production work force retires. Money alone won't create these people, only long-term training will. These are not the workers who are unemployed today, and the U.S. has no program to address this critical problem.

- Parts. There are fewer and fewer defense parts suppliers. Low profit, one-year orders, cyclical demand, special military requirements, excessive regulations and paperwork, and similar factors make defense business far less attractive than comparable civilian business for the parts supplier. The result has been far fewer lower-tier sources; rapidly rising prices, and extremely long lead times on deliveries from the few remaining, highly-specialized defense suppliers (at the lower-tier levels) -- many of whom are the sole source for a critical item.

- Production equipment. Most of the available defense production equipment is well over 20 years old, and is very inefficient. Few skilled workers are trained to operate such equipment. Those few, modern, efficient production units that exist -- such as the large forges and the big, multi-axis, numerically-controlled airframe assembly machines -- are already in use on three shifts; leaving no capacity for expanded produc-

tion. Overall, there has been relatively little capital equipment bought in the defense industry in recent years, and there are almost no incentives to do so in the future.

- Foreign dependency. In addition to the known, critical nature of our dependency on foreign raw materials and energy, there is a growing list of foreign sole-source suppliers of critical military parts and subsystems.

The cumulative effect of these conditions is that the U.S. is paying over $50 billion a year for military equipment, and not getting its money's worth. Nor can the industry supplying this equipment expand rapidly enough to make a difference in the outcome of any likely-duration conflict.

Let me recommend eight specific actions that should be taken by the Executive and Legislative branches in order to improve the situation significantly over the coming years.

1. Introduce stability into the defense planning and budgeting process. The United States is the only nation in the modern world that does not have a multi-year defense budget approved by its legislative branch. Thus the problem of achieving stability begins with the Congress. However, although there are Constitutional and political factors which discouraged across-the-board multi-year authorizations or appropriations, there are actions -- perhaps more readily attainable -- which can go a long way toward creating greater stability within the defense acquisition process. These include multi-year procurements and adhering to planned quantities and production rates (without either the "stretch-outs" introduced by the DOD in the budget process, or the revisions introduced by the Congress). Such improved stability will directly address the ability of the industry to maintain a relatively stable workforce, and to plan its capital investments appropriately.

2. Utilize realistic initial program budgets. Both the Executive and Legislative branches have been guilty of allowing -- and even encouraging -- initial "buy-ins" on programs. That is, permitting

unrealistically low initial estimates for programs so that they can get through the approval process; ever though everyone -- from the industry to the DOD and Congress -- is aware that the numbers are overly optimistic. Frequently, realistic cost estimates -- conducted by independent sources, or based on previous experiences -- are ignored. The problem is compounded by applying unrealistically low inflation indices to the program. As a result, when costs begin to grow, other programs are cut back, or the specific program is stretched out; causing further cost increases across the board and creating further cutbacks, and on and on. The solution would be to use realistic numbers in the first place; but that is extremely difficult because many other programs either could not be initiated or would have to be terminated (both difficult actions). Naturally, everyone would agree that we need realistic cost estimates. The question is: How to break the present vicious circle and begin to accomplish this? The next few recommendations address this point.

3. Steps should be taken to introduce real competition into defense procurements. This does not mean more of the sort of "one-time" competition presently used. It means dual sourcing throughout the program. Perhaps the single most important difference between defense business and civilian business stems from the all-too-frequent absence of alternatives in the military procurement process.

   In defense, there customarily is a fierce rivalry during the initial competition for an award of a research and development contract. After this initial competition -- frequently awarded based upon a firm's "buy-in" -- the winner becomes the sole developer and producer for the military system over the next 20 years. Thus, a program -- such as a missile system -- may once have had an initial competition, but after that first step there is no alternative source for this much-needed piece of equipment. Therefore, the sole-source producer increases the price, the government has little choice but to attempt to "negotiate," and basically to accept the cost increases.

By contrast, in the civilian sector the buyer would usually refuse to accept such increases, and would go to alternative producers. Occasionally, a similar approach has been tried in defense procurements. Almost always this yielded very significant savings to the government. (Studies by TASC have found typical cost savings of 30% upon introduction of production dual-sourcing.) Of course, the initial producer always argues that by building more units himself he will move down the "learning curve" and therefore it would not be worth the government's money to pay for the initial start-up costs of a second source. In theory this is true; but in practice prices have almost always been found to rise in defense procurements, as a result of the sole-source conditions of the producer. Therefore, I favor far more dual-sourcing of defense production; wherein the annual buys are split between the two producers as a function of the quality and cost of their equipment in the prior years.

At this point, let me make a brief aside relative to the subject of competition in defense procurements. Traditionally, whenever there has been a suggestion for more competition in defense procurements, this has usually resulted not in the awarding of two contracts for production of defense equipment (the form of real competition in the civilian world), but rather in the establishment of a "box score" for the number of contracts that Defense awards through competitive procurements. As a result, the small contracts (e.g., $100,000 studies and analysis awards) are made on the basis of auctions for the lowest bidder. This has a variety of negative impacts. First, it frequently costs the government and industry well over $50,000 to hold each of these competitions -- which far exceeds any possible cost savings. Second, as a result of funding not the best study, but the cheapest one, potential overall DOD savings of hundreds of millions, or billions, of dollars that could be realized as a result of a good, independent analysis, are simply not explored. In fact, recent legislation -- such as that of Senator Pryor -- has gone to such an extreme in attacking the studies and analysis work done in attempting to support defense decisions, that they are proposing to outlaw

all "unsolicited proposals." This means that small research firms will be discouraged from submitting new ideas. Instead, the assumption is that good ideas are only generated by the government. Each idea will then be put out for competitive bids; and the large firms will always win them (through cross-subsidization, i.e., buy-ins). Obviously, my hope is that if this Committee comes out with any revised legislation in the area of increased competition for defense procurements, consideration will be given to the difference between small-dollar-value contracts (for example, under $1 million) -- which should be awarded on the basis of demonstrated quality work and/or unsolicited, new ideas (e.g., studies and analyses) -- and large-dollar-value defense production programs which should be awarded on the basis of a combination of low price and high quality -- and preferably awarded to multiple sources.

4. DOD must improve R&D planning. More dollars should be shifted in the direction of "new idea generation" rather than simply paying for long, large, and expensive full-scale development programs. Similarly, more R&D dollars must be shifted to the lower tiers of the defense industry and to the small firms (where historically many of the very creative new ideas have originated). Finally, there must be far greater emphasis on design-to-cost; wherein the performance of systems is traded off against the unit cost of those systems, and engineers are trained to design equipment at an affordable cost. Otherwise, the U.S. will be driven into a position of having only a very few, very high performance systems; which would be insufficient to win a war.

This clearly leads into the "quantity/quality" debate -- presently being raised by Senator Hart and others. It is highly appropriate that these related issues: roles, missions, weapon vs. force performance, wartime expediency and utility, the "inherent" cost of maximum-possible performance, and producability, should be raised. However, regardless of the types of weapons systems in the force structure -- whether they are relatively more or relatively less sophisticated -- separate consideration must be given to acquisition efficiency.

5. The DOD must begin to address directly the problems at the lower tiers of the defense industry, both in terms of their own policies, and the way sub-contractors are treated by primes. Most of the lead time, single-source and similar problems which limit defense capacity are at the lower tiers. This -- a key finding of the Defense Science Board -- was confirmed by several recent TASC studies of lead times and industrial responsiveness. Specifically, DOD must emphasize efforts to establish multiple sources for critical items. More research and development funding should be channeled to these firms. More "combined buying" (to increase volume of the buys) must be done. Paperwork requirements on smaller firms should be reduced significantly. Smaller firms simply do not have the high-priced law firms, accounting and administrative staffs to comply with detailed requirements. The lack of overhead is one of the principal reasons they are more efficient and DOD should take advantage of this efficiency.

   With regard to their treatment by primes, there must be more "flowdown" of the beneficial contract provisions given to the prime contractors -- progress payments, special inflation clauses, etc. Finally, and most important, there must be greater stability and a reasonable profit (consistent with the risks) provided to these lower-tier defense suppliers.

6. The government should institutionalize an approach to improving the defense industry's economic efficiency and strategic responsiveness. To date, it has been assumed that "the market" will achieve desirable characteristics for the defense industry. However, due to the unique characteristics of this market, i.e., one buyer and usually one, or very few, suppliers, this has not been the case. Under the condition of a monopsony and oligopoly market, the government must determine the influence of its actions on the structure, conduct, and performance of the industry. For example, in the 1950s the United States bought over 3,000 fighter planes per year. In the 1960s this went down to 1,000 planes per year, and in the 1970s down to 300 planes per year. Yet the structure of the aircraft industry

remained largely the same, with essentially the same number of plants. This has aggravated the cost and schedule problems I mentioned earlier, because it has been necessary to reduce quantities and "slip" schedules in order to keep each aircraft producer alive, even at a low level.

As I noted before, the existence of these empty, or underutilized, plants does not assure either efficiency or responsiveness. Thus, in this case, the government should allow the competitive market to operate, and allow a reduction in the number of plants. By contrast, however, in the tracked-vehicle industry there has been only one producer of tanks, and one producer of armored personnel carriers for many years. Therefore, it may be in the government's interest to create a viable competitive market by requiring a second source in each case. As would be expected, corrective actions are different for different sectors, since building ships is not the same as manufacturing bullets, or building radars. Thus, sector by sector analyses are required, and actions must be taken to maximize the efficiency and responsiveness of each individual sector of the defense industry. These actions must consider both the peacetime efficiency and the wartime surge capability of the individual sector. Some of them may result in a common improvement in both efficiency and responsiveness. For example, the ordering of long-lead parts a few years in advance would raise the volume at the parts industry level and thus lower their price, while simultaneously improving the overall responsiveness of the defense industry. Similarly, far greater integration -- at the plant level -- between military and civilian production of equipment should result in higher volume in those plants and thus greater overhead absorption and lower costs; while at the same time resulting in greater production surge capability -- through the ability to shift civilian workers, production equipment and parts into the military area, when a surge is required. The same works in reverse if cutbacks are required on individual defense programs -- you don't have to close the plant if a program is cancelled.

Clearly, such analyses and actions to improve industrial efficiency and responsiveness will require some resources, but the long-range payoff in terms of peacetime production of military equipment, as well as crisis response from the defense industry, will more than warrant the small, front-end investment.

7. The government must create incentives for contractors to make capital investments. To improve productivity in defense -- as well as in the rest of the nation's economy -- changes in taxes, cost accounting standards, procurement and profit policy, and other areas of legislation are required in order to encourage industry to make the capital investments needed to achieve lower equipment costs. This, however, becomes a self-defeating action unless efficient production rates are used in those modernized plants.

8. Finally, the government must establish clear and rational international policies in this area. These range from our policies on foreign military sales through our growing dependency on the importing of raw materials, critical parts and subsystems, to technology transfer, interoperability of logistics systems with our allies, and many other complex issues. My personal preference would be not to establish trade barriers; but rather to take advantage of America's areas of strength. For example, in areas in which we are currently dependent for critical parts on a foreign supplier, initiate a next-generation research and development program in that area -- so that we could become the exporters for the next generation of those parts.

The new administration has begun to address some of these needed actions. In fact, in his recent initiatives Secretary Carlucci explicitly addresses -- at least partially -- four of the above eight items. (Specifically, items #1, #2, #4, and #7.) Congress should enthusiastically support these new initiatives, and encourage the DOD as they (hopefully) expand this very difficult effort into all eight areas.

If fully effective, these initiatives will result in a total "cultural change" in the way in which defense business is done. Thus, there will be a need for detailed institutional changes, as well as continuous follow-up for implementation; both through policy actions and, most importantly, through individual program acquisition decisions -- again, requiring Congressional support.

Hearings such as this one clearly show that people are beginning to address not only the important defense question of "How much should we spend?" but are initiating dialogue on the equally important question of how we spend that money. If this direction continues, and if we address such questions as, "Are we selecting the right items?" and "How does the military-industrial-Congressional complex work together to achieve efficiency in the way in which we buy equipment?", then I believe the necessary changes can take place and we will, in fact, have a stronger defense posture for the increased dollars being spent.

However, without such changes, we will continue to spend more and get less -- and the American people need, and deserve, and will demand a better use of their defense dollars.

PREPARED STATEMENT OF ALTON D. SLAY

GENERAL USAF (RETIRED)

Mr. Chairman, Members of the Committee:

I appreciate the opportunity to appear before you today on a topic of great importance to the nation and of great and abiding professional interest to me - improving the Acquisition Process of the Department of Defense.

This subject of how to improve the defense procurement process has always been important - and not just in recent times. I suspect that General George Washington may have been confounded by some of the same procurement problems that perplex us today. But in recent years, the "important" has become the "critical." Muskets, cannons, wooden sailing ships, powder and ball, horses, mules, wagons, fodder and a lightweight support wagon train have given way to extremely complex aircraft, ships, submarines, tanks, missiles, and a host of other systems; and the support "wagon train" is no longer lightweight.

Inefficient procurement of muskets and field cannon no doubt cost our government tens or perhaps hundreds of thousands of dollars during the Revolutionary War. By World War II, the price of defense procurement inefficiencies had risen dramatically and could probably be measured in the tens, or perhaps hundreds, of millions of dollars. But with individual weapon systems of today costing tens, or even hundreds, of millions of dollars, the price of procurement inefficiency can be measured in billions. But dollars alone cannot describe the sum - or even the greater part-of the price of defense procurement inefficiency. Wasted time is an even greater burden.

Mr. Chairman, I strongly suspect that it will come as no surprise to you nor to any member of your committee when I assert that our defense acquisition system of today is inefficient. I have been so asserting for years-in uniform, as well as out.

There are many parties and accessories to that indictment: the Department of Defense; the Office of Management and Budget; the Congress of the United States; and others have contributed to the problem over the years and it would be diffi-

cult to single out one entity as the major culprit. They all must share the blame.

The efficiency of the System did not precipitously decline as a result of one major event, or even a series of major events. The process has been more like slow erosion. Many regulations, laws, and, perhaps equally as important, interpretation and implementation of those laws and regulations, are the principal source of our problems. I will discuss several of these today. But first, I would like to start with a short review of how we got to where we are. Since my expertise is related directly to the Air Force portion of the problem, my comments will be principally about the Air Force.

In the early 1960s, the United States Air Force established the Air Force Systems Command in response to the change in Air Force mission made by the Defense Reorganization Act of 1958. This change in structure gave greater stature and more top-management support to the increasingly important systems development and acquisition mission of the Air Force. And, in the management environment prevailing at that time, this structural change made good organization sense, for the Air Force had broad decision-making powers, and much of its authority could be - and was - delegated to the new field command. Some major decisions were, of course, reserved to the Chief of Staff and, through him, to the Air Staff; but this reservation did not unduly restrict the Systems Command in executing its major planning and programming responsibilities.

By 1962 or 1963, however, the changing management environment in the Office of the Secretary of Defense led to a shift in the relative roles of OSD, the Air Staff, and the Air Force Systems Command. As the Office of the Secretary of Defense grew larger and moved from its earlier role as adjudicator to its new role as decision maker, the OSD Staff and the Air Staff began to assume many of the planning and programming responsibilities formerly assigned to the Air Force Systems Command. While this was a natural response to the emerging role of OSD, and the obvious trend toward more decisions to be made at that level, it meant that the influence of the field command diminished proportionately.

This trend toward centralization of authority in OSD and the Air Staff has continued undiminished to this day. As a matter of fact, the trend has greatly accelerated over the past few years. The net result is a "constipated" system with

multiple layers of review and micro-management which has, for all intents and purposes, prostituted the sound management principles upon which AFSC was founded.

We now face a situation in which at least seven organizational layers or echelons do the same jobs: AFSC with its Acquisition Divisions and Program Managers; the Air Staff; the Air Force Secretariat; the OSD Staff; the OMB Staff; and Congressional Committee Staffs. And, far from paying their way, these multiple layers or echelons significantly reduce the effectiveness with which the overall systems development and acquisition mission is performed. Conversely, simplifying this complex structure could alleviate many of today's costly management problems.

The argument which is always made against de-layering is that having several layers of scrutiny on a program "protects against mistakes." Although, in my experience, layering causes many more mistakes than it prevents, I can understand the argument. It is the same kind of argument that would hold that a battalion commander's combat decisions must be approved all the way up through the chain of command to the JCS and the top political echelons to "protect against mistakes."

My bias is very clear on this point and it is exactly contrary to the "modern logic" of centralization of authority: the further up any chain that a decision is forced beyond its natural level, the greater the likelihood of a bad decision. Obviously, one could argue about where that "natural level" is; but here again, my bias is clear. Just as the battalion commander is usually the best expert on his particualr combat situation, the weapons system program manager is usually the best expert on his particular program. Therefore, most decisions are best made at that level. But that is not the case in today's environment.

Today, most important decisions on Air Force acquisition programs are made remote from the program office usually by people who have never been a program manager, who have never negotiated a government contract, who have never used an Air Force weapon system in combat, and who have no technical or managerial expertise on the specific program under review. In my opinion, that situation begs for problems and fosters inefficiency.

Now, obviously, the counter-argument is that people who have done all of those things brief and advise the decision makers. The argument is correct - disturbingly correct. As a matter of fact, Air Force program managers are required to spend more of their time on the "briefing circuit" than on managing their program. My "counter-counter-argument" to the counter-argument is, I believe, a rather obvious and simple one: "If the high-level decision maker is to reject the advice of the experts, upon what grounds will the decision be made?" and the corollary: "If the high-level decision maker is to accept the advice of the experts, why force the decision up through the bureaucracy in the first place?"

Over the past twenty years, the bureaucracy associated with the defense acquisition "system" has grown like a fungus with few tangible benefits, but with many tangible dis-benefits:

a. Greatly extended time from the statement of a requirement to its operational availability in the field. Ten years or longer for this cycle is not at all unusual. In the early 1960s, AFSC managed to bring the first ICBM systems to operational status in six years from birth using the decentralized management system of the day. Today, that same job would require 12 years or more.

b. Long delays in getting decisions made- a subset of dis-benefit "a". This inevitably causes cost growth, as well as program stretch-out.

c. Unproductive use of talented and highly trained program managers. Quite often in the cycle of a program's life, a program manager will be required to give twenty or more briefings to gain a single decision which he was more competent to make than the final decision-making authority.

d. A gross diminishment of the program manager's sense of responsibility for his program. If all major decisions about a program are made by someone else, as they inevitably are in today's environment, it is perhaps understandable that a program manager would lose a bit of zeal in the process. This phenomenon is known as "fuzzing" in the trade.

e. Related to dis-benefit "d", we are training - and have been for some time - a generation of program managers to be "leaners"; "leaners" on the great fount of knowledge that they have learned is bound to exist in the Pentagon and Congress. Many of our program managers

> are, unfortunately, accepting their lack of control over their program as the "norm"; as the only way things can work. To some, but thankfully not yet to most, the existence of the Pentagon "Big Brother" is at once a comfort and a joy - "comfort" because their responsibilities are diffused, and "joy" because they get much "visibility" on the required continuous rounds of briefings to senior personages in the Pentagon.

What is to be done? The Deputy Secretary of Defense, Mr. Carlucci, has taken the first large step with a statement of his principles of management. I could not improve upon them. I like them so much that I append them hereto and urge that you read them carefully and do what you can to help Mr. Carlucci implement them - for he will need <u>much</u> help.

A thriving tropical fungus, given the right conditions of temperature and humidity, can defy the best efforts of scrub-brush and ammonia. The DoD acquisition bureaucracy, like the fungus its growth resembles, will also be hard to control. Its sporelike policies and procedures are ubiquitous. The bureaucratic tools of obfuscation, interpretation, and coordination, in combination with the most time-honored tool of all - delay - ("This too shall pass when he leaves") - will cause Mr. Carlucci much difficulty in accomplishing his very admirable objectives. History is replete with examples of bureaucracies chosen to be the "stick-ee" in someone's reformatory zeal, instead, winding up as the "sticker".

But I am very encouraged. At least the spear has at last been picked up. I would only hope that it is being held at the proper end.

Aside from decentralization of management, there are many specific changes to defense acquisition laws, regulations and procedures that I would like to see made, but I will only discuss a few of them. The single most important of these involves the use of multi-year contracts. It is key to many of the improvements which I believe are needed in our acquisition process.

It is appalling but true that not a single major Air Force program has been procured according to the original schedule since the 1960s. They have <u>all</u> been stretched out either by the Pentagon or by Congress. To give you an idea of the

amount of money these stretch-outs waste, consider the following data related to the F-15 and F-16:

a. The original schedule for buying 729 F-15s called for the last aircraft to be produced in 1980. The 1981 and 1982 President's budgets called for stretching the program by 4 years to 1984. This stretch alone added $1.68 billion to the cost of the 729 aircraft.

b. The original schedule for buying 1388 F-16s called for the last aircraft to be produced in 1987. The 1981 President's budget stretched that to 1989, and the 1982 President's budget stretched the program again to 1991. These stretches added $2.5 billion to the total program cost for the same number of aircraft.

The approach that multi-year espouses is very simple - so simple that, at first, one wonders why we don't already do it all the time. Basically, this technique requires the government to (1) commit itself to longer-term contracts to allow contractors to make more economical use of resources; and (2) protect the contractor in the event the commitment cannot be honored. If we could do these two things on selected acquisitions, we could routinely save from 10% to 30% of the contract price. That can amount to a huge savings when you realize that, the Air Force Systems Command alone is currently managing almost $100 billion worth of contracts. Saving just 10% of this amount would provide $10 billion extra to fund many important programs not otherwise affordable. A 10% savings is on the very low side. A savings of at least 20% could be routinely made with properly executed multi-year contracts.

Multi-year procurement would provide stability. It would allow the contractor to purchase his raw material and components in larger, more economical lot quantities. The result would be significantly lower prices. Our experience with multi-year procurement to date indicates that most of the savings can be attributed to more efficient material purchases, although stability of the work force is also an important advantage.

Perhaps the most important long-range benefit of multi-year procurement is that the contractor is also encouraged to increase his capital investment. A longer term stable requirement provides better opportunity to recoup investment costs. The contractor can also get better loan terms and the

costs of productivity enhancements can be spread over a larger base.

Another feature of multi-year contracting is that it would allow contractors to order critical materials more efficiently. They could accept delivery of some materials early if there were sufficient savings to justify the added storage costs. Or they could improve their position as a buyer by having a longer term order with the suppliers.

The multi-year contract approach is not practical for many of our programs. There would have to be significant savings compared to other procurement approaches before multi-year would be considered. Screening candidates for multi-year includes an analysis of program requirements and determinations on design and funding stability. These factors must be reasonably firm before a long term contractual commitment can be made.

Multi-year contract strategies are many and varied. They may span from two to five years. Large systems buys could be longer. A new production program may carry a large cancellation ceiling -- the upper limit of the government's liability if it fails to continue the contract to completion. In mature production contracts, the cancellation ceiling would be smaller. Contract funding would normally be provided annually through the congressional appropriations process. Under certain conditions the Congress might authorize a multi-year approach, but fund it based on the contractor's termination liability.

We are currently hindered in using multi-year procurement because it involves longer-term commitments than are currently authorized by existing statutes and regulations and it requires cancellation ceilings -- protection for the contractor -- higher than those currently allowed by law. Recently, we have seen widespread recognition of the need for change and, because of the savings potential, some willingness to revise current restrictions.

The way we are forced to do our business today can be called, for comparison purposes, "single-year" procurement. We receive an annual authorization bill from the Congress which indicates, for example, the maximum number of F-16s we will be allowed to procure this year, say 180, or 15 per month. Later, we receive an appropriations bill which may fund the number of aircraft previously authorized or may fund a lesser number, say 120, or 10 per month. Once we have all other necessary

approvals, we ask the prime contractor for his proposal for these 120 aircraft, review his projected costs, negotiate a price, and award a contract. Then, the contractor will order most of the materials and components for these 120 and eventually start manufacturing.

Most contractors in today's economy cannot afford to spend their own money to buy materials ahead of time for items that may never be covered by contract. And this situation -- not receiving a contract for some requirement that seemed so firm, so urgent only a few months before -- occurs often enough to make it inadvisable to risk tight resources. Now, for some items, such as the F-16s I am using as an example, we do attempt to head off the long lead times involved by asking for funding approval for certain items one or more years ahead of time, so that the contractor can order and take delivery when needed for the manufacturing process.

But the use of the advance buy is very limited. We are not allowed to buy items simply because they offer price breaks. Items only qualify for advance procurement if they have significantly long production lead times. Even then, the number of aircraft finally approved and funded may be different from the original long lead authorization specified.

All of this uncertainty -- especially the annual opportunity for Air Force, DoD, OMB, the President and the Congress to change the quantity to be procured each year -- keeps us from getting any kind of price break on the buy-out of materials, components, subsystems, and other material.

So far I have focused on multi-year commitment to longer-term contracts. What about the second and, from the contractor's standpoint, most important ingredient, protection for the contractor in the event the commitment cannot be honored? Protection is provided to the contractor by means of the cancellation ceiling. It is in this area that we hit roadblocks in our attempts to effectively use the technique. Normally, cancellation ceiling monies are not appropriated unless the covered contract is terminated. In the event of cancellation, the government must cover the contractor's non-recurring investment, i.e., tooling costs, special test equipment costs, etc. This is protection for the contractor's unrecovered portion of his investment, if the contract is not funded to completion.

The roadblock we have hit in this area is that, although we can do multi-year procurements right now, we are limited by a maximum cancellation ceiling of $5 million. This is a legislative restriction found in Section 810 of the 1979 Appropriations Act. Additionally, DoD and Congressional policy only allows "one time" start-up costs to be covered by the cancellation ceiling. The effect of these two restrictions is that we cannot use multi-year on very large programs where the savings potential is greatest because the $5 million cancellation ceiling is too small to cover the contractor's liability. Also, the contractor is not protected by the cancellation ceiling for making economic lot buys of material and other recurring costs needed for future years' productions.

Basically, we need one important change to existing legislation: we need an increase in the cancellation ceiling restrictions from the present $5 million limit to a higher, more enabling figure of $100 million and authorizing the coverage of recurring costs under the cancellation ceiling as well as non-recurring costs. Also the new law should encourage the use of economic lot buys as a valid method of saving money.

We can expect significant benefits if allowed to pursue multi-year contracting. Perhaps foremost, we'll be able to improve program stability and reap many of the side benefits of that improvement that I've discussed previously. We should be able to increase capital investment and in turn, increase productivity, as contractors (and lenders) are encouraged to take on more long-term investments. We should be able to increase competition as more contractors would compete for the larger requirements. Efficient purchasing practices allowed by the multi-year technique will allow economic lot buys and allow reduced lead times. All of the above will result in significantly lower costs. The bottom line is that our Defense posture would be enhanced through more efficient use of available funding.

I submitted a request for the specific legislative and policy changes required to the Air Staff in March 1980, and separately transmitted it, over the signatures of all of the Joint Logistics Commanders to OSD in July 1980. I've also made the proposal to Congress on several occasions and it is currently embodied essentially in Congressman Dan Daniel's Bill HR-745. I recommend that Bill for your serious and favorable consideration.

The second specific change I'll address today is related to multi-year contracting and involves the DoD policy of fully funding Advance Procurement.

DoD Directive 7200.4, Dated October 1969 establishes the full funding policy for all DoD procurement programs. "Full Funding" means simply that funds are appropriated and available at the time of award to cover the total estimated cost to deliver of a given quantity of complete, militarily useable end items or services.

Under current policy (DoD Directive 7200.4), the entire funding needs of the fiscal year production quantity must be provided unless an exception for advance procurement has been approved. A test of full funding is to ask the question: "Does any part of this year's buy depend on a future year appropriation to result in the delivery of complete units? If the answer is yes, the contract is probably not fully funded.

The principle of full funding applies only to the Procurement Title of the annual appropriation act and therefore affects production contracts but not RDT&E contracts. The main reason for the full funding policy was stated in a May 1957 letter from the House Appropriations Committee to OSD: "The general prevailing practice of this committee is to provide funds at the outset for th total estimated cost of a given item so that the Congress and the public can clearly see and have a complete knowledge of the full dimensions and costs of any item or program when it is first presented for an appropriation."

Full funding of Advance Procurement is <u>not</u> a statutory requirement. The policy has been established by a continuing dialogue between Congress and DoD. Advance procurement of long lead time "components" prior to the fiscal year in which the related end item is to be procured is recognized by both DoD and Congress as an exception to the full funding policy.

The problem lies in a set of criteria contained in the 1974 House Appropriations Committee report which have been adopted by OSD. Those criteria are:

a. "The <u>components</u> have a lead time which is significantly longer than the rest of the <u>components</u> which comprise the end item.

b. There is a <u>demonstrable requirement for these components</u> even if the subsequent year's buy of the intended end items is not authorized and appropriated; and

c. The components are to be procured as Government Furnished Equipment (GFE) rather than a part of the end item prime contractor's effort."

OSD has adopted these criteria as its own and has consistently interpreted policy on Advance Procurment to prohibit advance procurement of anything but useable G.F.E. Components; require full funding of all long lead items; and to restrict advance procurement to only one fiscal year prior to procurement of the related end item.

With today's lead times and many items requiring long lead two or more years in advance of the end item procurement, it is obvious that program continuity could not be maintained if these rules were rigorously followed. Therefore, DoD procuring agencies have over the past several years, used advanced procurement for other than useable components end items and for Contractor Furnished Equipment (CFE) as well as for Government Furnished Equipment (GFE). As a matter of fact, in some procurement, few, if any long lead items would be directly useable as components of an end-item if the subsequent year buy of the related end-item was not made.

The services have also, in practice funded some advance procurements to termination liability rather than full funding. Termination liability is equal to the contractor's actual expenditures plus liabilities incurred during the advance procurement period. In other words "Termination Liability is the maximum cost the Government would incur if a contract is terminated. In the case of a multi-year contract terminated before completion of the current fiscal year's deliveries, termination liability would include an amount for both current year termination charges and outyear cancellation charges. Funds required would increase significantly if advance procurement is fully funded versus termination liability funded. Examples:

	Termination Liability	Full	Diff.
F-15 (FY81)	$110M	$230M	$120M
XM-1 (FY81)	71M	141M	70M
F-14 (FY83)	141M	456M	315M
UH-60 (FY83)	20M	74M	54M
TOTAL	$342M	$901M	$559M

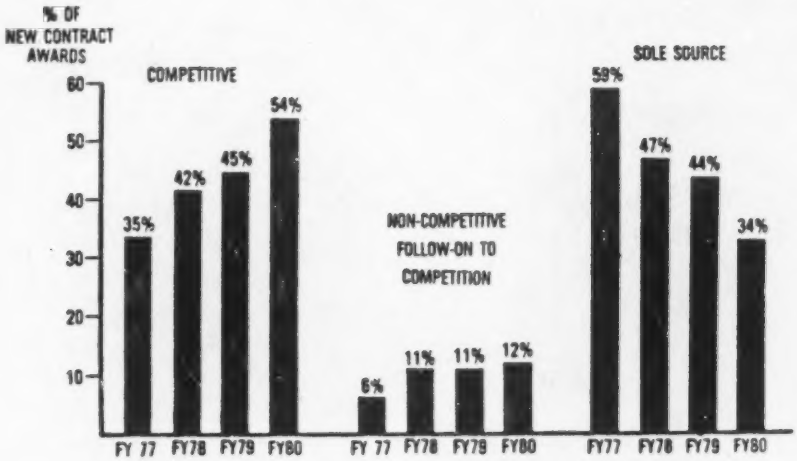
In practice Congress has consistently approved advance procurement for aircraft and aircraft engines, ships, and tanks, but continues to chastise the services for full funding "abuses." Ironically, the Navy was directed by the 1980 Authorization Conference report to use termination liability funding for the F-18. "Reduces the funding needed...and more accurately represents the manufacturing effort actually incurred..."

It is recommended that DODD 7200.4 be revised to reflect the situation which, perforce exists today. These recommended changes would accommodate Advance procurement for CFE as well as GFE; would allow advance procurement of items such as titanium sheet, plate, forgings, etc., which are not directly useable as end item components but which have lead times such as to require procurement in advance of the end item; and recognize and authorize the principle of funding of advance procurement to termination liability rather than requiring full funding.

Another prong in the attack on these problems should be the selective adaptation of business practices which are widely and successfully used in the private sector. As Commander of AFSC, I tried to do this as much as I could within the framework of law and government regulations. Examples of these practices which I implemented are much increased use of competitive procurements; more use of firm-fixed price contracts; the use of contractor past performance in source selection; and greater use of warranties.

In the private sector, competition usually results in a higher quality product and competitive price. Operating in a known competitive environment also facilitates corporate strategies designed to maintain a competitive posture, including capital investment decisions and other steps which increase efficiency.

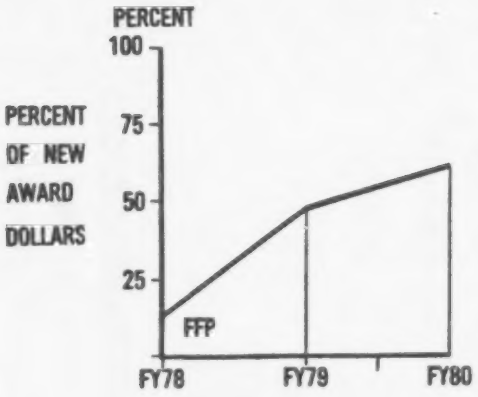
The figure on the following page illustrates the trends in new AFSC competitive procurements over the last four fiscal years:



Extent of Competition in New Contract Awards

I believe that good progress was made. We increased new competitive awards from 35 percent in FY77 to 54 percent in FY80. Reducing sole source awards further than shown will be difficult since we were approaching a practical limit. Close to 75 percent of the new sole source awards in FY80 were in areas where we are restricted from competition or have limited opportunity to compete. These include 8(a) minority business, unsolicited proposals, contracts with educational institutions and the like.

Firm-Fixed Price (FFP) contracting is a way of life in the commercial world, and I pushed this method of contracting extensively where it was appropriate. In addition to the stability inherent in FFP contracting, it also provides incentives to contractors to increase profit through improved internal operations. This profit is retained in the business and can be ploughed back in the form of investments in modern plant and equipment. Properly applied. these investments can facilitate productivity increases or otherwise improve the company's competitive posture.



New Award Dollars on FFP Contracts

In FY80 we placed 54 percent of our new award dollars on FFP contracts, up from 15 percent in FY 78. New award dollars on "cost plus" contracts are now less than 10 percent of the total.

As is the case with new competition, our efforts to increase FFP contracting, were done with great care to assure that fixed price contracts are not used on high risk programs where flexibility priced contracts are more appropriate.

Another area where AFSC adopted business practices from the commercial world is the use of contractor past performance in source selections. Although bidders for Air Force contracts have always been thoroughly evaluated against program criteria, I believe that stronger use of past performance as a consideration in selecting contractors is immensely beneficial to the Air Force. As with businesses and individual consumers, it does not make sense for the Air Force to continue doing business with a company that previously delivered an inferior product. Using past performance in this manner constitutes an incentive to perform well today because future awards and, possibly, corporate financial health, might be at stake.

I made use of past performance in source selection a standard procedure in AFSC, and it is now used on all source selections. As a matter of interest, past performance has been a "swinger" on several recent contract awards.

One other venture we started in AFSC was to teach our program managers about commercial practices through actual exposure to them. Keying off the Air Force Education-With-Industry program, where outstanding Air Force officers spend up to a year learning the internal operations of a defense contractor,

we initiated a similar, but a much smaller program, with a non-defense industry. Six AFSC officers served several months with the Boeing Commercial Airplane Company, and were exposed to the contracting, financial, product assurance and other management practices associated with the commercial airplane business. When these officers returned to AFSC, they were assigned to jobs where they could apply the knowledge gained to AFSC programs. AFSC is now moving out to expand this program to include the airlines and other commercial enterprises as well.

I thank you again for the opportunity to appear before you today on this important topic.

MANAGEMENT PRINCIPLES

The Steering Group recommends that the Deputy Secretary of Defense reaffirm the following major acquisition management principles:

1. An improved statement of long-range Defense policy, strategy and resources will be provided to the Services in order to establish a framework for military objectives, goals, and mission planning to enhance program stability.

2. Responsibility, authority and accountability for programs should be at the lowest levels of the organization at which a total view of the program rests.

3. Service Program Managers should have the responsibility, authority, resources, and guidelines (goals and thresholds) adequate to efficiently execute the program. This should include the system specific acquisition strategy for attainment of the required operational and readiness capability, and appropriate flexibility to tailor the acquisition strategy to estimates of the development priorities and risks.

4. Evolutionary alternatives which use a lower risk approach to technology must be examined when new programs are proposed. Solutions at the frontiers of technology must provide an alternative which offers an evolutionary approach. Pre-planned Product Improvement (P^3I) should become an integral part of the Acquisition Strategy.

5. Achievement of economic rates of production is a fundamental goal of the acquisition process.

6. The Services should plan to realistically budget and fully fund in the FYDP and Extended Planning Annex (EPA) the R&D, procurement, logistics and manpower costs at the levels necessary to protect the acquisition schedule established at program approval points, and to achieve acceptable readiness levels.

7. Improved readiness is a primary objective of the acquisition process of comparable importance to reduced unit cost or reduced acquisition time. Resources to achieve readiness will receive the same emphasis as those required to achieve schedule or performance objectives. Include from the start of weapon system programs designed-in reliability, maintainability and support.

8. The proper "arms-length" buyer-seller relationship should not be interpreted by government or industry as adversarial. The DoD should be tough in contract negotiations. But weapons acquisition should be managed on a participating basis using industry as a full constructive team member. A strong industrial base is necessary for a strong defense.

CHANGES IN DEFENSE BUSINESS PRACTICES

Mr. GANSLER. Yes; I would like to make some summary remarks.

It seems one of the most critical questions before the Congress and the people of the United States is whether or not the Defense Department, with increased expenditures over the next few years there will in fact be significant increase in the production of needed military equipment or just fueling the inflation cost. To me, the answer is not clear. However, I do believe that if significant changes are made, some of which you have just heard about, in defense business practices between the Government and industry, there is a reasonably good chance that America may attain the defense improvements that are desired and needed.

On the other hand, without significant changes, it is my opinion that the recent trends of decreasing economic efficiencies and declining strategic responsiveness are most likely to continue.

The problems have been very well documented, so I am not going to repeat them. I covered four reports in my statement that came out at the end of 1980 that covered these problems. Based on those, however, it is my opinion that throwing money at the defense industry by itself will not solve these problems. Rather, it is necessary to directly address the bottlenecks—labor, parts, capital equipment—and the trend of recent years directly; to make significant structural adjustments in the industry; to change the way defense business is done; and to plan in peacetime for surges in production of selective military equipment should future need arise. These changes can be made within the desired free enterprise, private ownership, democratic system; and they have to be made if we are to get the necessary military equipment for dollars, rather than continue simply to feed the inflationary spiral.

SUMMARY OF SPECIFIC ACTIONS

There are eight specific actions contained in my statement which I believe, if fully implemented, can result in the desired changes. Let me summarize those.

DEFENSE PLANNING AND BUDGETING PROCESS STABILITY

One, introduce stability into the defense planning and budgeting process. This seems like an obvious step, but one that neither the executive branch nor the legislative branch have been sufficiently self-disciplined to achieve in recent years.

REALISTIC PROGRAM BUDGET UTILIZATION

Second, to utilize realistic program budgets. Obviously a truism, but again one that neither branch of Government has been able to live with.

REAL COMPETITION IN DEFENSE PROCUREMENT

In my opinion, a big help in this direction would be in my third recommendation, which is to introduce real competition into defense procurement. By this I do not mean competition for an award. That, in my opinion, is auction, inviting de facto buy-ins. What I mean is dual sourcing—that is what is done in the real world, the commercial, civilian world—creating alternatives to sole sources for most defense goods. Unfortunately, this is an area which the Government has frequently tried for more competition and the result, frankly, has usually been to hold an auction for small Government contracts, that is, studies for $100,000 or less for scientific or management studies. This way the scorecards look good. You have more competitive awards, lots of little, small contracts, rather than achieve desired dual sourcing on large defense awards where the potential for real dollar savings really exists.

IMPROVEMENT IN R.& D. PLANNING

Fourth, DOD must improve R. & D. planning, look for new ideas and fund them, especially the simply, low unit cost ideas without expecting all of these ideas to pay off. But stop putting such a large share of the R. & D. dollars into a few very expensive, very lengthy, full-scale development of systems which are (1) too extensive to deploy, (2) obsolete before they reach the need, or (3) unreliable and unmaintainable and, therefore, not available when needed.

PROBLEMS OF LOWER TIERS OF DEFENSE INDUSTRY

Fifth, directly address the problems of lower tiers of the defense industry. These have been ignored by DOD and the prime contractor for too long, and they are the source of many problems today. We clearly have a dual economy in the defense industry. The problems and solutions are different at the prime contractor level than at the subcontractor and parts suppliers' level, and they therefore require different actions. This tier must be revitalized if we are to have a viable defense industry base.

IMPROVEMENT OF ECONOMIC EFFICIENCY AND STRATEGIC RESPONSIVENESS

Sixth, the Government should institutionalize an approach to improving the defense industry's economic efficiency and strategic responsiveness. As the only buyer there is no alternative to the Government in encouraging the necessary structural adjustment in the industry. For example, in those sectors where there are too many supplies—and we certainly have some of those sectors—you must allow the market—and I say you, particularly the Congress, must allow the market to work to reduce the number of suppliers. By contrast, in those sectors where there is only one supplier we must create a viable competitive market. This is simply supply-side perspective and is consistent with the new economics. But it takes guts to implement.

CAPITAL INVESTMENT INCENTIVES BY CONTRACTORS

Seventh, we need to create incentives for contractors to make capital investments. Incentives for capital investment are all wrong in the civilian economy as well, but much worse in the defense economy.

POLICIES IN DEFENSE INDUSTRIAL AREA

Finally, we need to establish clear and rational international policies in the defense industrial area. They don't exist today, at least in terms of the real technology transfer mechanisms; and they need to be created, in my opinion, not by setting up trade barriers. The area is going unchecked, and long-range problems are terribly important.

Let me conclude this summary by lending my full support for the recent DOD initiatives under the leadership of Secretary Carlucci and Dick DeLauer. They will be difficult to implement, and require full congressional support. I was discouraged by some recent actions by some of the committees on multiyear contracting. They already indicate far greater concern for committee turf than the national economy. But I continue to be optimistic in spite of that.

Yet I believe even these new initiatives do not go far enough, and I hope they will be extended in the future. My hope is the Congress, the DOD and industry and American people now recognize the need for a change in the way the procurement of defense equipment is accomplished. If this change can be brought about we will have strengthened our defense posture with increased defense budgets, giving renewed meaning to the phrase arsenal of democracy. If not, the American people deserve and will demand better representation.

Thank you.

Chairman HATFIELD. Thank you. General Slay.

DEFENSE PROCUREMENT SYSTEM

General SLAY. Mr. Chairman, I appreciate being invited to appear before your committee. It is much easier as an emeritus than somebody with responsibility.

I do have many biases, which I will share with you, on our defense procurement system. But I will say at the outset, to put my remarks in the proper context, knowing a little bit about all Government procurement, I have to say that defense procurement is probably the most efficient of the lot. But then that is condemnation by very, very faint praise. All are inefficient.

INEFFICIENCY IN REQUIREMENT PROCESS

The defense system is inefficient from alpha to omega—all the way through. It is inefficient in its requirement process. The requirement process is not disciplined. We don't do a good job of establishing requirements. We don't do a good job of pushing those requirements through. We don't do a good job of validating those requirements. We don't do a good job of accepting and leaving those requirements alone once they are established. There is entirely too much personal bias that

creeps in the requirements generation process. There are entirely too many things that are invented externally to the requirements process, and those things that are generated externally to the requirements process are generally issued to the services. And history is replete with examples of that, and if you are interested I can give you some examples.

But I guess the principal thing that I find wrong with the requirements process is it takes so long, so terribly long, to get a requirement validated. And by the time the requirement is validated it can be legitimately attacked because it is not validated. That is so extremely bad.

One-step requirement is generated and validated. Our planning process, our long-range planning process, is very, very deficient. We have a lack of structure in our process. We have a lack of ability to integrate current decisions with long-range prospects. In my opinion, long-range planning should not deal primarily with future decisions. It ought to deal with the future of current decisions, and that is not adequately done in today's planning.

Of course, for many, many years my principal concern in the R. & D. acquisition business was the lack of an encompassing road map of exactly where we are headed, and a subset of that, the lack of a good, solid structure and framework on which all the things that we were trying to buy and trying to do R. & D. on could be judged and against which it could be placed in the proper perspective. We have in the past planned for point solutions to point problems, and we have done, in my opinion, business planning for development rather than development planning.

VANGUARD PROCESS

Now in one attempt to try to correct that, at least on my level at Air Force Systems Command, we developed a vanguard process. And I have a few brochures I will pass out here, as everyone does, to tell you what the vanguard is all about. I won't try to detail it in my statement.

The third thing that is wrong with the process is after the requirements are set and the planning is done, our entire system continues up. We have had a trend over my lifetime of pushing things up, up, up, and up in the decisionmaking process to the very, very high level. Micromanagement is not restricted to OSD. It is done at all levels, and it is also done in Congress. It is a situation where as a four-star, sitting in a position that you might equate to the chairman of the board, I was forced on a daily basis to deal with microitems that, in my opinion, could better be dealt with by captains and majors. We were drawn into detail work just due to the interest in detail at several levels.

Program managers unfortunately in defense are judged sometimes not on their managerial capability but on their ability to perform a fine song and dance as they go up the line trying to defend the program. I have seen many examples of first-class program managers who get sapped because they are not a very good song-and-dance man. That is not universally true, but it is true.

COMPETITION IN PROCUREMENT PROCESS

You mentioned competition. I thoroughly agree that one of the problems that we have had in the past in the defense procurement system is lack of competition. I have tried in the 3 years I served as commander of Air Force Systems Command to increase competition, and I think we were successful—from 35 percent for competitive awards in 1977 to a 65 percent goal in 1981. We achieved in 1980 54 percent. Sole sources awards, on the other hand, went down from 59 percent in 1977 to 34 percent in 1980, and we had a goal of 81 percent in 1981. We met both our competitive goals and sole source goals in both 1979 and 1980—1978 too for that matter. I have very many doubts that my successor will be able to meet the 65 percent goal for 1981. It is a very tough one because we have reached a point where there is not too much more than can be done because of set-asides, 8(a), minority businesses, things like that, which will mitigate against many more improvements of that magnitude in the competitive environment.

But that is one thing that I thoroughly believe, that competition does enhance several things. It enhances the price policy. But more than that, it sharpens up contractors. There is nothing that sharpens a technical team more than knowing that they have got an extremely tough competition ahead of them. So not only will you get a good price, but you will also get the product.

I think that our competitions are set up a little bit wrong, though. We pay entirely too much attention to the technical aspects of competition when we should be paying more attention to the potential for cost reduction over the life of the program, and that goes into several areas. No. 1, cost reduction on how this contractor is going to facilitize and is going to mechanize to do an extremely efficient job to have a very steep learning curve. That will be extremely important for all competition.

The second thing is much more emphasis on what his particular proposal shows can be done over the life of the program through reduced total actual cost. In other words, quality should be extremely important in the proposal and in the analysis of that proposal. Also, the ability to run that particular piece of machinery without spending an inordinate amount on support. About 15 years ago the Air Force was spending $2 in acquisition for every dollar they spent on support. Today that is exactly the reverse. We are spending $1 on acquisition and $2 on support. That is a trend we ought to try to reverse. The only way to reverse that is through the competitive process and through the process of forcing contractors' bids and for the services to pay more attention to those kinds of things.

CONTRACTING

Another item in the kinds of things that I tried to do in the Systems Command was to do a better job of setting up the kinds of contracts. We had only 15 percent firm based priced contracts in 1977, and by the time that fiscal year 1980 was finished that was up to 54 percent. That did not have a fiscal year 1981 goal for that, but it kept cost-plus con-

tracts under 10 percent. I thoroughly agree with Dick DeLauer and Frank Carlucci that there are certain types of contracts that you should not let on firm fixed-price basis. That is really not the way to go. You should not force contractors to take an undue amount of risk on a risky venture where the contractor does not have all the tools at his disposal to control cost. Under those kinds of conditions we try and be careful and not let a firm fixed-price contract.

SOLE-SOURCE CONTRACTS

Several times there have been mentioned the follow-on to competition. In essence, by definition, those are sole-source contracts because you let to a sole-source contractor for procurement of the F–15. Again, I have to agree with the predecessors of this table who said to make it competitive. I agree with Jacques Gansler that we should do more in the early portion of our systems acquisition process to encourage production and competition. We have done that to tremendous advantage in several cases. I will give you one good case I was directly involved in, and that is the ammunition for a particular system. We had Aerodex as sole-source supplier and we brought Honeywell in as a second competitor. The price of that ammunition went down greatly. We kept that competition. That was only one of two multiyear contracts I was able to push through the system in the 3 years I tried. But we managed on that multiyear contract to keep the competition and save the taxpayer $34 million on a $360 million contract. The only other multiyear contract was on the SSS–55 with Northrup. That was done in spite of the system rather than because of it. We had to get tremendously involved in order to let that contract. But we did manage a 16-percent savings over the single-year contracts we had already negotiated.

Well, there are a lot of other things that I could talk about here, Mr. Chairman, but I will just say a few things that we tried to do in Systems Command over and above what I have talked about is much more widespread use of past performance. It makes absolutely no sense to me to award a contract to a contractor that has done a bum job for us. If I had a house contractor that did a poor job, I certainly would not go back to him and let another contract with him. So, rather than using past performance very gingerly, I put out a requirement that you must use past performance as a major consideration in all contract awards, and by the time we left Systems Command we did not make a single award where past performance was not considered.

A major effort to get Defense to try to do things in a commercial fashion, frankly, we still don't know how to do things in a commercial fashion. We have been doing things in this way of procurement, military procurement, for 205 years, and it is very difficult to transition into the commercial field because, No. 1, we don't know how. Recognizing that, I arranged with the Boeing Airplane Co., a commercial airplane company, to take six of my best program managers up there and treat them just as civilians so our program managers could learn how the commercial airplane business was done. They did. And we expanded that to other areas, electronics and other areas, and I hope we

will try to do a better job of pushing things into the commercial type of contract. One reason we have never done a good job of this is because we have tried to warrant the old cheese. In other words, it is very difficult to take an F–15 and tell a contractor, I want to warrant that F–15. Well, there are so many things that you have to consider. Who is responsible if you drop that box on the ramp? Who is responsible for the problem when you deploy an F–15 to Saudi Arabia? How do you keep books? We always grapple with that. Rather than starting at the top and working down the initiative, we start at the bottom and work up and warranty the parts.

FAILURE OF INITIATIVES

We have talked about Mr. Carlucci's initiatives, and I agree with the general consensus I have heard around here this morning. They are all good. And I also agree they have been around before. I have seen the same initiatives that have been used, most of which fell by the wayside. In my written statement I have tried to indicate as precisely as possible why the initiatives have failed. Second- and third-tier bureaucracies who are entrenched in the way they do this, and it takes an extremely active pushing of initiatives to get them through.

Some people in industry refer to the people that I had pushing the Slay initiatives as Slay's zoo. I have no question about that. In order to implement initiative you have to have the characteristics of a bunch of animals. You have to be like a rhinoceros; you can't worry about what people think. You have to have the compassion of a king cobra and the ability to fight for what you believe. Most importantly, you have to have teeth like an alligator and the willingness to use those teeth to bite somebody in a way I won't put on the record. I feel, frankly, that no initiative without the permanent, the direct and visible and believable involvement of the people that write those initiatives, is just not going to work.

With that arm waving, I will stop, Mr. Chairman.

Chairman HATFIELD. Thank you very much.

Senator BUMPERS. I nominate General Slay for Secretary of Defense.

REQUIREMENTS PROCESS

Chairman HATFIELD. Dr. Gansler, some of the critics of the Defense Department have commented about the requirements process that promotes evaluation of procurement by equipment rather than by defense need; in other words, probably both the Department of Defense and Congress have been guilty in the past for emphasizing the detail of the weapon system of the project rather than the concept of overall merit. What, in your judgment, is the implication on the procurement process and maintaining our defense capability at the same time?

Mr. GANSLER. I think it is certainly true. People have classically given examples of maintenance of the buggy whip industry even though we don't need buggy whips anymore. And there are certainly what might be called institutional inertia in the Congress and DOD, and certainly pushing from the industry side, and it is clear to me that does have, as

General Slay said, a very significant impact on the so-called requirements process, coming from what equipment you can build and would like to build and therefore defining that as being a requirement. I guess an obvious example to me of something driven that way was the need for a replacement for the vulnerability of the Minuteman. It seems to me that is a classic case where literally billions of the acquisition money were spent on things we knew how to do. We developed a new guidance system and a new propulsion system, and a new missile system. The problem was the debasing of the Minuteman, how to get an invulnerable system. We knew how to do all the other things and continued to do them and not the debasing and vulnerability question which was the key issue in the next generation Minuteman replacement. That happens quite often. Another classic example was the difficulty of the Navy in actually deploying antiship missiles after it had been discovered ships could be sunk with antiship missiles. We refused culturally to go along with the deployment of the antiship missiles. These cultural biases have strong institutional inertia.

COMPETITIVE PROTOTYPING

Chairman HATFIELD. General Slay, it is my understanding when you were actively leading the procurement program in the Air Force Command you used what was called competitive prototyping. Would you explain that in some detail and whether or not you feel the applicability of that in other areas of procurement would be helpful in halting the cost overruns.

General SLAY. I am a supporter of the concept of competitive prototyping. As a matter of fact, we used to procure, back in my early days in this business, we procured just about everything as a result of a competitive program. We actually built many, many fighters and many, many bombers and many, many transport airplanes that never really saw production. But I think we got our money's worth out of them simply because we were keeping the industry teams alive and a competitive atmosphere alive when we did pick a system to go with.

But the competitive prototyping I was able to do was on a fairly small scale, but I did, I think, foster some competitive prototyping in some fairly large areas. One of those was the AMRAM, advanced medium range air-to-air missile. I think it is going on right now between Hughes and Raygon, and I think the results in the missile we get out of that is going to be infinitely a better missile with infinitely a better capability of industry to produce than we would have had if we would have let that contract just on the basis of a paper competition. We will know what we are buying to a much greater extent and we will know just due to the data that has been gathered during the protoptyping phase how to assess the contractor's cost. In other words, both of these contractors come in and say, OK, we are going to produce *x* number of missiles for *y* number of dollars. We will look at the record of what they experience cost-wise during the prototype program and I think we will be able to tell much better what the cost of that particular program might be.

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Also, a point that we made many times before, you have made too before, industry capability to keep competition always on call after you have done competitive prototyping. We have a competitive prototype on the F–16 and F–17. That turned into a program that was never envisioned. Those programs were established by Mr. Packard to redesignate some fighter design, trying to get facts in the 1940's and early 1950's when we did a lot of prototyping. The result of that, both airplanes went into production and they are both still competing in the foreign atmosphere, if not the U.S. atmosphere.

To do a reasonable job of competitive prototyping you have to guard against several things. You have to guard against contractors overextending themselves. You have to bound the amount of money that the Government is willing to spend on that. And one of the ones that I helped to push through was a competition on the predecessor who designed the IAMXT, and we had a bounded liability on that. The Government says we have a limit of Government obligation we will not be responsible for, and AMRAM is exactly the same. We have a close-in system for that prototype program that we cannot have in the false growth in the prototype program. We said do the best job you can for this amount of money. Then we will judge the winner or loser based on your efforts. I feel if you go into a competitive prototype program without an input you will be in a situation where contractors will be spending to the wind and that will be to the disadvantage budget-wise of the Government. Perhaps to the advantage of the Government technically, but you really need to put some sort of cap. But I am a firm supporter and devoted practitioner of that technique.

Chairman HATFIELD. Senator Proxmire.

Senator PROXMIRE. Mr. Chairman, I want to congratulate you on these two witnesses. I think they are two of the most competent and capable witnesses we could get. They are extremely well informed. I know a great deal about both of them and admire both of them.

I don't know if you heard Senator Bumpers before he left the room, he nominated you for Secretary of Defense, General Slay. I take it we have to elect Senator Bumpers President first to do that.

IMPROVEMENT IN COMPETITIVE ATMOSPHERE

General Slay, I want to compliment you for your outstanding efforts to improve efficiency and the competitive atmosphere at the Air Force Systems Command. I note that competition improved under your command from 35 percent to 54 percent in only 4 years, which I think is quite an improvement. I know the statistics and we have looked at this carefully and those are legitimate statistics. You improved the competition. I know how you accomplished that, but I would like you to tell us what it was you told your subordinate commanders about improving competitive statistics. How did you get it done?

General SLAY. Well, I told them if they weren't capable I would find someone who was.

COMPETITIVE BIDDING AWARDS

Senator PROXMIRE. You sent a telegram telling them to show an immediate increase in their competitive bidding awards or you would find someone else who would.

General SLAY. That is right. That being me.

Senator PROXMIRE. Is there any reason the Deputy Secretary could not issue the same kind of order throughout the Defense Department, recognizing the limitations that you have already given us? There are some areas obviously where competition is not appropriate, but recognizing the many areas where it is not.

General SLAY. I certainly could not deny him the same leeways that I felt I had to issue that wire.

Senator PROXMIRE. What would you do with an important contractor who cannot meet his commitment to the Federal Government through fault of his own, not through the fault of the Government's, but through fault of his own? What would you do if you had full discretion?

General SLAY. Full discretion? Obviously you never will have full discretion. But if you have full discretion you would get rid of him fast and you wouldn't let him have another contract.

Senator PROXMIRE. Do you see any reason we can't do that as a matter of policy in this Government, recognizing, of course, there are problems involved here? But why can't we do what is done in the private sector? You hire somebody on the contract and you expect him to perform. That is what the contract is for. You take them to court if they don't meet their contract.

General SLAY. Yes, sir, and that is a laudable goal. Let me give you a good example where I tried to implement that. My one big fault—I will talk about successes almost all the time—but my one big fault in my years at Air Force Systems Command was inertia upper stage. It went on the shuttle and we were buying that to use both in the defense system as well as the NASA system. We had some large cost growths on that system, and although during my tenure we had a total, excluding inflation, negative cost growth on all of our system, IUS had considerable cost overruns. I tried as best I could to terminate that program. I tried. As a matter of fact, I had both principal contractors in my office and told them I was going to make a major effort to terminate the program. I had to admit after I had worked the problem for several months that I could not terminate it for one simple reason. There was no alternative. We had burned our bridges behind us and there was no alternative and we had to eat that.

Senator PROXMIRE. So not only as a matter of competition but enforcing contracts you needed a broader industrial base and alternative suppliers.

General SLAY. That is right.

SHORTAGES IN LABOR FORCE

Senator PROXMIRE. Let me ask you, Dr. Gansler, you mentioned in your testimony the fact it is incorrect to assume the excess capacity in the defense industry and the unemployed labor force can be harnessed to produce the items called for by the bigger defense budget. One of the bottlenecks you said will be in the labor force. You give the example of the shortage of engineers and skilled laborers; is that right?

Mr. GANSLER. Yes, that is one of the problems.

Senator PROXMIRE. Much of the unemployment—not all of it, but much of it—is in the unskilled or semiskilled labor force. My question is will the administration's massive increase in defense expenditures do much to relieve unemployment for those workers?

Mr. GANSLER. I don't see it. A majority of the workers in the defense sector are either highly skilled or even professional. Many of the defense plants, 70 percent of them are engineers. In the aircraft industry perhaps 50 percent are engineers. You don't make an engineer overnight.

EFFECT OF LIMITED RESOURCES ON INFLATION

Senator PROXMIRE. That suggests the line of questioning Senator Bumpers was engaged in, considering the actual inflation we are likely to suffer in this area with the terrific increase we are going to have in defense that many of us feel is necessary. Aren't we likely to have a greater degree of inflation just because the resources are limited and when we press against those resources we drive up the cost in the process?

Mr. GANSLER. It depends how you use the resources. There are options. One could run the defense industry base by using increased resources to buy more needed parts or spare parts, to buy some of the badly needed pieces and parts and set up additional suppliers. Those will get down to the lower levels of the defense industry. I don't think those will raise prices. I think they will actually lower prices because there we have now existing bottlenecks and prices are going up by placing more orders.

Senator PROXMIRE. But when you come to getting engineers, if you need engineers, you have to bid them away from the private sector, and there is no profession that I know of that has had a sharper increase in recruitment. I know the University of Wisconsin, the University of Oregon, and other great institutions have produced excellent engineers. They get $24,000 to $25,000 in their first year.

Mr. GANSLER. It assumes they need to keep the same ratio they had last year of engineers to production work when they get an increased allocation of dollars, and therefore demand more engineers. My own view is if the device were stabilized and you are increasing the production rate, you wouldn't need the engineers in the same rate and you could get them.

PERSONNEL REQUIREMENTS

Senator PROXMIRE. You not only need engineers, but all kinds of skilled labor.

You say long-term training, not money, will create the people needed for this increased defense production. The administration seems to be headed in the opposite direction. It is pumping more money into defense, while cutting back on the domestic programs that might train the people needed for the defense buildup. So are we robbing Peter to pay Paul, with the end result being that even Paul won't get a good deal down the road?

Mr. GANSLER. There are two things you will have to do. One, encourage more capital investment so you become more capital intensive rather than labor intensive. The other is to allow some of that training as allowable cost within defense procurement. They need not be viewed as social programs but rather national security. We need the labor force, and some of the training cost could be incorporated within the cost of procurement. Again, it is an absolute different approach.

Senator PROXMIRE. We could have just one budget, the military budget.

Mr. GANSLER. I am not advocating that.

Senator PROXMIRE. I have other questions. The hour is late and I will ask them for the record.

COMPETITION

Mr. GANSLER. I would, if I could, Senator, comment on the direction of your questions relative to competition, that I think you are missing a significant and important difference when you look at competition in terms of numbers of contracts as contrasted to dollars being impacted on the DOD. I think that distinction is an important one for you to address. For example, if you say you should have competition on whole programs over $5 million, then you could have a very significant impact. If you were to say, I want more competition, which is what you want, you will get your increased competition on $10,000 contracts, but you won't actually impact the dollars at all. The way that the commercial economy operates on a competitive basis is through the dual sourcing, and that is the thing where you can have very significant amounts of savings.

Senator PROXMIRE. Thank you.

Chairman HATFIELD. Senator Kasten.

PAST PERFORMANCE CONSIDERATION IN AWARDING CONTRACTS

Senator KASTEN. General Slay, you talked about the importance of past performance in the awarding of contracts and you emphasized that point. I can't find that principle on the list of 31 or 32 DOD initiatives. In fact, the breakdowns I have seen don't talk much about past performance. Is it your understanding that this administration is going to be looking at past performance less?

General SLAY. Well, I think the reason that you perhaps do not see it

in Mr. Carlucci's break up of 31 or 32 points is simply because the implementation of that is normally at what is called in defense the head of the contracting agency. In other words, Air Force Systems Command in the case of the Air Force. The winners of those contracts were decided at my level or lower, and past performance was always in all those pushed as hard as we could on contracts that were decided either at the secretarial level or at the OSD level. In the rack up of points we allocated, we always again stressed the past performance. Now I frankly would like to see a more adamant role taken by OSD on past performance. But it can be misused, Senator Kasten. I don't want to mislead. Past performance that isn't relevant can destroy a contractor, and you don't want that. It has to be performance on the type of contract that is being considered at the time. It has to be really recent performance, and it has to be something that is out of the sphere of judgment. It has to be something that is well documented. It can't be personal bias. So the procedures we set up within Systems Command are absolutely ironclad, and there was no way a contractor could get branded with a poor record when he didn't deserve it. In each case that we decided on the basis of past performance where that was a swinger, the first call was made to the contractor whose performance was deficient and it was discussed with him as to why his performance had been deficient and he got black marks in the record. In not one single instance was there an objection of that because it was part of the record and that could be argued effectively.

SET-ASIDES

Senator KASTEN. This leads into a related issue. During both of your testimonies you seemed to suggest that some set-asides, particularly small business set-asides, might be hampering the ability for efficient procurement. Past performance, of course, comes into that. And many people will say, I can't get started, therefore I can't meet these requirements. It seems to me that minority business set-asides and small business set-asides might not be efficient. Is that right, and if so, should we pay less attention to them? I would like both your comments.

Mr. GANSLER. I was going to say I think they can be very efficient. In fact, one of the things I would like to see is much more awards to small firms with creative ideas. Now, they have to use them judiciously. You want to go for new ideas. On the other hand, what I would like to see with these set-asides, use them to set up second sources when there is high risk. In other words, allow the small, creative, competitive firm to compete with a large firm. I think what you will find is the smaller one will come out with a lower cost item and higher reliability. In an honest competition, I think you will find the small firm did an excellent job.

General SLAY. I have nothing against set-asides. I will particularly allude to 8(a). What has sometimes happened to 8(a), people sometimes use set-asides and sometimes they don't apply the standard rules of management to the contractor for that. You can have competition in set-asides just as well as you can have competition throughout. In other words, you can serve out contracts to minority firms and have competi-

tion among those minority firms. There is nothing wrong with that. I think once you embark on a set-aside route, for instance, a minority set-aside business, then the Government should do what it can to help that company to grow to the extent they don't need set-asides. But again I don't want to give you the impression I am against set-asides. But a lot of procurement rules can still be applied, although it is much more difficult. I would say roughly 30 or 40 percent of the 8(a) set-asides you can't have competition.

UTILIZATION OF REALISTIC INITIAL PROGRAM BUDGETS

Senator KASTEN. Mr. Gansler, you listed as point No. 2, utilize realistic—underlining realistic—initial program budgets. What can we do? You have suggested the way we are going to do that in your points Nos. 3 and 4. But what can we do? All of us would agree you need to use realistic budgets. What can you do to legislate, to require that?

Mr. GANSLER. I am not sure while you in fact agree it is needed that in fact the Congress has encouraged it either. My impression is that there is a commonality of interest between the Congress, the executive branch and industry to get a program stated. And in fact if the Defense Department came into Congress and said, this program will cost a lot more because we will have two sources and in the long run we want to save, Congress would say, aren't you wasting money by two sources, couldn't you do it with one source at a lower price? My experience has been industry and Government that there are good estimates available as to what it is likely to cost. The fact that statistically we never underrun and always overrun indicates there is abuse as to our judgments both from the Congress and executive branch. I think we do have better estimates. All services have good independent data now to be able to estimate what the realistic costs are. Then let's say there is a program that is going to realistically cost $30 million to do and two contractors come in and say—we can do it for $20 million. Will Congress allow the DOD to use the $30 million or will they allow contractor *x* who can do it for $20 million? It is there where the trouble is. It is not accepting the realistics. We do know how to do it.

FULL FUNDING POLICY

Senator KASTEN. In General Slay's testimony and also briefly in his discussion here he talked about and emphasized the problems of so-called full funding policy. Do you share his view that the OSD has interpreted the requirement of funding quite narrowly and perhaps there is an area that both the Defense Department and Congress could move?

Mr. GANSLER. I do share that. I think not only the interpretation but use of it has been far too limited. I think it makes an awful lot of sense to procure the long lead parts. I might point out it not only saves in the economic sense but give current capability. In other words, if you bought parts that would take you 2 or 3 years to build and you ordered for the out years, now you have the capability to surge should you require it. The only risk to that is obsolescence. You need stability of design.

Senator KASTEN. General Slay, I am impressed by your statement:

A test of full funding is to ask the question, does any part of the year's buy depend on a future year appropriation to result in the delivery of complete units? If the answer is yes, the contract is probably not fully funded.

I would guess the answer is yes for over 90 percent of defense programs—certainly all of the projects we have been talking about this morning.

General SLAY. Let me share with you, Mr. Kasten, I found myself as head of Systems Command violating that full funding rule all the time just because I had to, because there were leadtime items that were in excess of 2 years and there is no way you can comply with that kind of rule when you have leadtimes that are sticking out 2 years ahead of everything else. You must keep the continuity of the production or drive the taxpayers out of their mind, and the cost growth we have seen thus far would be nothing compared to systems that strictly had to stick to that 1-year leadtime. Even OSD tacitly has to accept that. Congress accepts it tacitly.

Senator KASTEN. Thank you, Mr. Chairman. I would like to echo your comment and also my colleague's comment as to the high quality and helpfulness of these two witnesses. I wish we had more hearings that were as productive and more people appearing before us that were as thoughtful and well prepared as the two witnesses are. Thank you.

Chairman HATFIELD. Thank you, Senator Kasten.

I would underscore the obvious competency of your testimony today and the extraordinary contribution it has been to our hearings, and we are grateful.

Thank you Mr. Gansler and General Slay.

CONCLUSION OF HEARINGS

The meeting will stand in recess until the call of the Chair.

[Whereupon, at 12:45 p.m., Thursday, July 9, the hearings were concluded, and the committee was recessed, to reconvene at the call of the Chair.]

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